

Q3

July 31, 2008 (unaudited)

MDS interim report



Science advancing health

MDS Reports Third Quarter 2008 Results

Continuing to Take Action to Improve Profitability

Toronto, Canada, September 4, 2008 - MDS Inc. (TSX: MDS; NYSE: MDZ), a leading provider of products and services to the global life sciences markets, today reported its third quarter 2008 results for the period ended July 31, 2008. For the quarter, MDS reported total revenue of \$321 million, net loss of \$10 million and loss per share from continuing operations of \$0.08 including restructuring and asset impairment charges. Net revenue was \$298 million and adjusted EBITDA was \$41 million compared to \$308 million and \$49 million in the prior year, respectively. Adjusted earnings per share were \$0.06, down from \$0.13 in the prior year.

Quarterly Highlights

- Reported net revenue of \$298 million, down 3% from \$308 million in the prior year. Excluding the impact of foreign exchange plus acquisitions and divestitures, net revenue decreased 5%.
- Reported adjusted EBITDA of \$41 million, down 16% from \$49 million in the prior year.
- Reported adjusted earnings per share of \$0.06, down from \$0.13 in the prior year.
- MDS Pharma Services reported \$122 million in net revenue up from \$118 million in the prior year and a loss of \$2 million in adjusted EBITDA compared to a gain of \$4 million in the prior year. The business delivered another quarter of strong new business wins, up 42% from prior year to \$169 million.
- MDS Nordion continued to deliver solid performance in the third quarter, with adjusted EBITDA of \$23 million versus \$22 million last year. Reported revenue was \$72 million, compared to \$76 million last year which included \$7 million in revenue for product lines sold in 2008.
- MDS Analytical Technologies reported \$104 million in revenue and adjusted EBITDA of \$21 million compared to \$114 million and \$27 million in the prior year, respectively.
- During the quarter, MDS repurchased 1.0 million Common shares for \$15 million under its Normal Course Issuer Bid. Year-to-date 1.9 million shares have been repurchased for \$32 million.

“During the quarter, we took actions to improve profitability across our businesses and were able to achieve a step-up in adjusted EBITDA versus Q2,” said Stephen P. DeFalco, President and Chief Executive Officer, MDS Inc. “We remain focused on profit improvement initiatives at MDS Pharma Services until we can get the full benefit of our strong orders trajectory.”

MDS REPORTS THIRD QUARTER 2008 FINANCIAL RESULTS

Operating Segment Results

MDS Pharma Services

(\$ millions)	Q3 2008	Q3 2007	% Change Reported
Net Revenues:			
Early-stage	68	62	10%
Late-stage	54	56	-4%
	\$ 122	\$ 118	3%
Reimbursement revenues	23	25	
Total revenues	\$ 145	\$ 143	
Adjusted EBITDA:	\$ (2)	\$ 4	-
	% (2)	% 3	-

For the third quarter, MDS Pharma Services net revenue increased 3% over the prior year driven by revenue growth in early-stage. Foreign exchange rates had a positive impact on revenues of approximately \$6 million or 5%. Adjusted EBITDA was a loss of \$2 million compared to a gain of \$4 million last year attributed to the impact of lower revenue excluding foreign exchange, unfavourable revenue mix and investments in growth which offset productivity savings. New business wins of \$169 million were up 42% from prior year, and increased period ending backlog sequentially by \$55 million to \$486 million.

As previously announced, MDS Pharma Services initiated headcount reductions and the closure of several offices to improve profitability which resulted in an \$8 million restructuring charge during the quarter. The balance of restructuring actions and related charges of \$6 million - \$8 million are expected in the fourth quarter.

MDS Nordion

(\$ millions)	Q3 2008	Q3 2007	% Change Reported
Revenues	\$ 72	\$ 76	-5%
Adjusted EBITDA:	\$ 23	\$ 22	5%
	% 32	% 29	-

MDS Nordion's revenue for the third quarter was \$72 million compared to \$76 million last year. The year-over-year decline was largely attributed to the sale of two product lines, external beam therapy and self-contained irradiators, which contributed \$7 million in revenue last year. For the quarter, the positive impact of foreign exchange rates increased revenue by \$2 million. Adjusted EBITDA was \$23 million up 5% compared to \$22 million in the third quarter of 2007. Adjusted EBITDA improvement was driven by strong performance in the sterilization product lines.

In the third quarter, MDS took action to address the issue of long-term isotope supply by filing a notice of arbitration and a court claim against Atomic Energy Canada Limited and the Government of Canada in response to their intention to discontinue the MAPLE project.

MDS Analytical Technologies

(\$ millions)	Q3 2008		Q3 2007		% Change Reported
Revenues	\$	104	\$	114	-9%
Adjusted EBITDA	\$	21	\$	27	-22%
	%	20	%	24	-

MDS Analytical Technologies reported \$104 million in revenue compared to \$114 million in the prior year. The year-over-year decline was largely driven by lower shipments of mass spectrometer instruments to the joint ventures. Despite the timing of shipments, end-user revenue for mass spectrometers grew 5%. We saw particular strengths in applied markets and across Asia, but are being challenged by soft demand for high-end instruments in North America. Changes in foreign exchange rates during the quarter had a positive impact on total revenues of \$4 million. Adjusted EBITDA for the quarter was \$21 million compared to a strong prior year of \$27 million. Sequential growth in end-user revenue resulted in margin improvement versus the second quarter. To further improve profitability, MDS Analytical Technologies initiated staff reductions in North America, which resulted in a \$4 million restructuring charge in the third quarter.

During the quarter, MDS Analytical Technologies acquired Blueshift Biotechnologies, a developer of screening platforms for life sciences research and maker of the IsoCyte™ benchtop laser scanning cytometer. This acquisition expands MDS Analytical Technologies' capabilities in cellular analysis, and further strengthens the Company's global sales and service offering. The integration of Blueshift Biotechnologies is progressing well and market enthusiasm for IsoCyte continues to gain momentum with additional orders placed during the quarter.

Guidance

As a result of slower than expected ramp up of revenue at MDS Pharma Services, related to the delay in the start of certain customer studies, MDS has revised its guidance for 2008 net revenue to \$1,230 million - \$1,250 million. Adjusted EBITDA and adjusted EPS guidance for the year are unchanged as cost reduction actions initiated during the quarter are expected to offset the impact of lower revenues. As a result of the restructuring and asset impairment charges announced in the third quarter and certain other adjusting items, net income and basic EPS guidance have been revised to \$18 million - \$28 million and \$0.15 - \$0.23, respectively. In addition, capital expenditures in 2008 have been reduced by \$10 million to \$50 million - \$60 million.

(\$ millions, except per share amount)

	2007 Actual Results		September 2008 Guidance		June 2008 Guidance
Total Revenues	\$	1,210	\$	1,330 - 1,350	\$ 1,350 - 1,400
Net Revenues	\$	1,119	\$	1,230 - 1,250	\$ 1,250 - 1,290
Adjusted EBITDA	\$	145	\$	160 - 170	\$ 160 - 170
Adjusted EPS	\$	0.34	\$	0.27 - 0.33	\$ 0.27 - 0.33
Income (loss) from continuing operations	\$	(33)	\$	18 - 28	\$ 45 - 55
Basic EPS	\$	(0.25)	\$	0.15 - 0.23	\$ 0.37 - 0.45
Capital Expenditures	\$	71	\$	50 - 60	\$ 60 - 70
Effective tax rate		41%		10% - 20%	10% - 20%

The above guidance is based on assumptions described in our MD&A.

About MDS

MDS Inc. (TSX: MDS; NYSE: MDZ) is a global life sciences company that provides market-leading products and services that our customers need for the development of drugs and diagnosis and treatment of disease. We are a leading global provider of pharmaceutical contract research, medical isotopes for molecular imaging, radiotherapeutics, and analytical instruments. MDS has more than 5,500 highly skilled people in 29 countries. Find out more at www.mdsinc.com or by calling 1-888-MDS-7222, 24 hours a day.

Caution Concerning Forward-Looking Statements

This document contains forward-looking statements. Some forward-looking statements may be identified by words like "expects", "anticipates", "plans", "intends", "indicates" or similar expressions. The statements are not a guarantee of future performance and are inherently subject to risks and uncertainties. MDS's actual results could differ materially from those expressed in the forward-looking statements due to these risks and a number of other factors, including, but not limited to, successful implementation of structural changes, including restructuring plans and acquisitions, technical or manufacturing or distribution issues, the competitive environment for MDS's products and services, the degree of market penetration of its products and services, the ability to secure a reliable supply of raw materials, the impact of our clients' exercising rights to cancel certain contracts, the strength of the Canadian and U.S. economies, the impact of the movement of the U.S. dollar relative to other currencies, particularly the Canadian dollar and the euro, uncertainties associated with critical accounting assumptions and estimates, and other factors set forth in reports and other documents filed by MDS with Canadian and U.S. securities regulatory authorities from time to time, including MDS's quarterly and annual MD&A, annual information form, and annual report on Form 40-F for the fiscal year ended October 31, 2007 filed with the Securities & Exchange Commission.

Also note that all financial data is now shown on a U.S. GAAP basis. MDS converted to U.S. GAAP reporting with the filing of its 2007 annual report and financial statements on January 29, 2008.

Use of Non-GAAP Financial Measures

The use of non-GAAP measures including terms such as net revenue, adjusted EBITDA, adjusted EPS, new orders and backlog are used to explain the operating performance of the Company. These terms are not defined by GAAP and MDS's use may vary from that of other companies. MDS uses certain non-GAAP measures so that investors and analysts have a better understanding of the significant events and transactions that have had an impact on results or may have an impact on MDS's financial outlook. MDS provides a description of these non-GAAP measures and a reconciliation of these non-GAAP measures for 2007 actual results to GAAP financial results in the MD&A of its 2007 annual report.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

September 4, 2008

Following is management's discussion and analysis (MD&A) of the results of operations for MDS Inc. (MDS or the Company) for the quarter ended July 31, 2008 and its financial position as at July 31, 2008. This MD&A should be read in conjunction with the unaudited consolidated financial statements and notes that follow. In 2007, MDS chose to adopt United States generally accepted accounting principles (GAAP) for financial reporting. As a result of this change, the Company restated to U.S. GAAP its previously filed financial statements for the four quarters of 2007. With U.S. GAAP as our primary basis of accounting, we will reconcile our U.S. GAAP earnings to Canadian generally accepted accounting principles (Canadian GAAP). This reconciliation will be done as required by applicable Canadian regulations on an annual and quarterly basis for fiscal 2008 and 2009. The results discussed in this MD&A are based on U.S. GAAP. To supplement the U.S. GAAP MD&A included in this document, please refer to our separately filed Canadian Supplement to this MD&A that restates, based on financial information of MDS reconciled to Canadian GAAP, those parts of our MD&A that would contain material differences if they were based on financial statements prepared in accordance with Canadian GAAP.

For additional information and details, readers are referred to the 2007 annual financial statements and MD&A and the Company's 2007 Annual Information Form (AIF), all of which are published separately and are available at www.mdsinc.com and at www.sedar.com. In addition, the Company's 40-F filing is available at www.sec.gov.

Our MD&A is intended to enable readers to gain an understanding of MDS's current results and financial position as at and for the period ended July 31, 2008. To do so, we provide information and analysis comparing the results of operations and financial position for the current interim period to those of the same period in the preceding fiscal year. We also provide analysis and commentary that we believe is required to assess the Company's future prospects. Accordingly, certain sections of this report contain forward-looking statements that are based on current plans and expectations. These forward-looking statements are affected by risks and uncertainties that are discussed in this document, as well as in the AIF, and that could have a material impact on future prospects. Readers are cautioned that actual events and results will vary.

Caution Regarding Forward-looking Statements

From time to time, we make written or oral forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of the Securities Act (Ontario) and the United States Private Securities Litigation Reform Act of 1995. This document contains such statements, and we may make such statements in other filings with Canadian regulators or the United States Securities and Exchange Commission (SEC), in reports to shareholders or in other communications, including public presentations. These forward-looking statements include, among others, statements with respect to our objectives for 2008, our medium-term goals, and strategies to achieve those objectives and goals, as well as statements with respect to our beliefs, plans, objectives, expectations, anticipations, estimates and intentions. The words "may", "could", "should", "would", "suspect", "outlook", "believe", "plan", "anticipate", "estimate", "expect", "intend", "forecast", "objective", "optimistic", and words and expressions of similar import are intended to identify forward-looking statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, which give rise to the possibility that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers not to place undue reliance on these statements as a number of important factors could cause our actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to: management of operational risks; the strength of the Canadian and United States' economies and the economies of other countries in which we conduct business; our ability to secure a reliable supply of raw materials, particularly cobalt and critical medical isotopes; the impact of the movement of the U.S. dollar relative to other currencies, particularly the Canadian dollar and the euro; changes in interest rate policies of the Bank of Canada and the Board of Governors of the Federal Reserve System in the United States; the effects of competition in the markets in which we operate; the timing and technological advancement of new products and services introduced by us or by our competitors; the impact of our clients' exercising rights to cancel certain contracts; the impact of changes in laws, trade and import/export policies and regulations, and enforcement thereof; judicial judgments and legal proceedings; our ability to successfully realign our organization, resources and processes; our ability to complete strategic acquisitions and joint ventures and to integrate our acquisitions and joint ventures successfully; new accounting policies and guidelines that impact the methods we use to report our financial condition; uncertainties associated with critical accounting assumptions and estimates; the possible impact on our businesses from natural disasters, public health emergencies, international conflicts and other developments including those relating to terrorism; and our success in anticipating and managing the foregoing risks.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to the Company, investors and others should carefully consider the foregoing factors and other uncertainties and potential events.

Use of Non-GAAP Measures

In addition to measures based on generally accepted accounting principles (GAAP) in this MD&A, we use terms such as adjusted operating income; adjusted earnings before interest, taxes, depreciation and amortization (EBITDA); adjusted EBITDA margin; adjusted net income, adjusted earnings per share (EPS); operating working capital; net revenue; new orders and backlog. These terms are not defined by GAAP and our use of such terms, or measurement of such items, may vary from that of other companies. In addition, measurement of growth is not defined by GAAP and our use of these terms or measurement of these items may vary from that of other companies. Where relevant, and particularly for earnings-based measures, we provide tables in this document that reconcile the non-GAAP measures used to amounts reported on the face of the consolidated financial statements. Our executive management team assesses the performance of our businesses based on a review of results comprising GAAP measures and these non-GAAP measures. We also report on our performance to the Company's Board of Directors based on these GAAP and non-GAAP measures. In addition, adjusted EBITDA and operating working capital are the primary metrics for our annual incentive compensation plan for senior management. We provide this non-GAAP detail so that readers have a better understanding of the significant events and transactions that have had an impact on our results, and can view our results through the eyes of management.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Throughout this report, when we refer to total revenues we mean revenues including reimbursement revenues. We use the term net revenues to mean revenues excluding such amounts. All revenue growth figures and adjusted EBITDA margin figures are based on net revenues. We use net revenues to measure the growth and profitability of MDS and MDS Pharma Services because the pass-through invoicing of reimbursable out-of-pocket expenses varies from period-to-period, is not a reliable measure of the underlying performance of the business, and does not have an impact on net income or cash flows in any significant way. Management assesses and rewards the performance of MDS Pharma Services and the segment's senior management team using metrics that are based on net revenues.

MDS Pharma Services measures and tracks contract backlog. Contract backlog is a non-GAAP measure that we define to include the amount of contract value associated with confirmed contracts that have not yet been recognized as net revenue. A confirmed contract is one for which the Company has received customer commitment in a manner that is customary for the type of contract involved. For large, long-term contracts, customer commitment is generally evidenced by the receipt of a signed contract or confirmation awarding the work to MDS. For smaller and short-term contracts, customer commitment may be communicated in other ways, including email messages and oral confirmations. Only contracts for which such commitments have been received are included in backlog and the amount of backlog for these contracts is measured based on the net revenue that is expected to be earned by MDS under the contract terms. A contract is removed from backlog if the Company receives notice from the customer that the contract has been cancelled, indefinitely delayed, or reassigned to another service provider. As of January 31, 2008, we began to report new orders, which are the confirmed contracts for which we have received a customer commitment within the fiscal quarter. We have also started to report period ending backlog which measures our backlog at the period ending date and we continue to report the average backlog which is the average of the three month end backlog balances for the interim period.

Substantially all of the mass spectrometer product family or Sciex brand products of MDS Analytical Technologies are sold through two joint ventures. Under the terms of these joint ventures, we are entitled to a 50% share of the net earnings of the worldwide business that we conduct with our partners in these joint ventures. These earnings include a share of the profits generated by our partners that are paid from the joint ventures as profit sharing. Under U.S. GAAP, we report our direct revenues from sales to the joint ventures as revenues and we report our share of the profits of the joint ventures as equity earnings. We do not report our share of all end-user revenues, despite the fact that these revenues contribute substantially to our profitability. In order to provide readers with a better understanding of the drivers of profitability for the mass spectrometer product family, we report growth in end-user revenues as reported by our joint venture partners. This figure provides management and readers with additional information on the performance of our global business, including trends in customer demand and our performance relative to the overall market.

Tabular amounts are in millions of United States (US) dollars, except per share amounts and where otherwise noted.

Adoption of U.S. GAAP

Effective with the reporting of our fiscal 2007 annual results, we adopted U.S. GAAP as our primary reporting standard for our consolidated financial statements. We have adopted U.S. GAAP to improve the comparability of our financial information with that of our competitors, the majority of whom are US-based multinational companies. All figures for prior periods contained in these documents have been revised to reflect the adoption of U.S. GAAP as our reporting standard.

Introduction

MDS is a global life sciences company that provides market-leading products and services that our customers use for the development of drugs and the diagnosis and treatment of disease. Through our three business segments, we are a leading global provider of pharmaceutical contract research services (MDS Pharma Services), medical isotopes for molecular imaging, sterilization, and radiotherapeutics (MDS Nordion), and analytical instruments (MDS Analytical Technologies). Each of these business segments sells a variety of products and services to customers in markets around the world.

Discontinued Operations

All financial references in this document exclude those businesses that we consider to be discontinued. The results of discontinued operations relate to the diagnostics business we sold in 2007. All financial references for the prior year have been restated to reflect this treatment.

MAPLE Reactor

In 1996, MDS entered into an agreement with Atomic Energy of Canada, Limited (AECL), a Crown corporation for the design, development and construction of two nuclear reactors and a processing facility, known as the MAPLE project. The project was intended to replace AECL's current National Research Universal reactor (NRU) which produces approximately 50% of the world's medical isotopes. AECL agreed to provide interim supply of medical isotopes from NRU until the MAPLE project was operational. The MAPLE project was to be completed by the year 2000 at a planned cost to MDS of \$145 million.

By 2005, the project was not yet completed and costs had more than doubled, with MDS's investment exceeding \$350 million. To address these issues, MDS entered mediation with AECL that resulted in a new agreement between AECL and MDS on February 22, 2006 providing for both interim and long-term supply of medical isotopes. Under the interim and long-term supply agreement (ILTSA), AECL paid the Company \$22 million, assumed ownership of the MAPLE facilities and took responsibility for all costs associated with completing the project and the future production of medical isotopes from the MAPLE facilities. The parties retained certain rights related to existing claims. In addition, AECL acquired \$47 million of MAPLE-related inventories in exchange for a non-interest bearing note having a net present value of \$38 million, to be repaid over four years commencing in 2008. The agreement requires AECL to supply medical isotopes to MDS Nordion over a 40-year period, upon the MAPLE facilities meeting certain operational criteria, in exchange for a fixed percentage of the selling price. In accordance with SFAS No. 153, "Exchanges of Non-monetary Assets", the Company exchanged the MAPLE asset for the 40-year supply agreement which was recorded as an intangible asset at its fair value of \$308 million. This amount is to be amortized on a straight-line basis over a 40-year period once commercial production of MAPLE isotopes begins. The Company recorded a loss on this transaction of \$36 million in 2006.

On May 16, 2008, AECL and the Government of Canada, announced their intention to discontinue the development work on the MAPLE reactors located at Chalk River laboratories, effective immediately. The MAPLE reactors were to replace the NRU reactor and provide MDS Nordion with a long-term source of supply of medical isotopes under the ILTSA. MDS has substantial financial interests in the success of the MAPLE project, primarily through the 40-year supply commitment from AECL, as part of the exchange of non-monetary assets contained in the ILTSA.

The Company was neither consulted nor informed in advance by AECL or the Canadian government about their decision. Prior to their May 16, 2008 announcement, AECL had consistently maintained in regular project review meetings with the Company that it would complete the MAPLE project. AECL's announcement and position represents a different perspective on AECL's obligations than that held by MDS. On July 9, 2008, MDS served AECL with notice of arbitration proceedings. MDS will be seeking an order to compel AECL to fulfill its obligations under the ILTSA and if not granted, will seek significant monetary damages. MDS has concurrently filed a court claim for \$1.6 billion in damages against AECL, for negligence and breach of contract, and against the Government of Canada, for inducing breach of contract and for interference with economic relations.

AECL and the Government of Canada also announced that its decision will not impact the current supply of medical isotopes and that AECL will continue to supply medical isotopes, using the NRU reactor and will pursue an extension of the NRU operation beyond its current expiry date of October 31, 2011. While MDS supports this decision, it does not adequately address long-term supply.

MDS is reviewing the impact on its business from an operational and financial reporting perspective. The principal U.S. GAAP reporting exposure for MDS related to the announcement is its intangible asset associated with the 40-year supply agreement currently carried at \$336 million (valued at the July 31, 2008 exchange rate). MDS will continue to evaluate the intangible asset for possible impairment and the relevant financial reporting implications based upon the progress of any dialogue, negotiations or legal proceedings between AECL, the Government of Canada and the Company. It is the Company's position that AECL has breached its contract with MDS, and the Company will continue to monitor the proceedings and potential outcome which, at this time, we deem to be uncertain.

MDS Inc.

Consolidated operating highlights and reconciliation of consolidated adjusted EBITDA
(\$ millions)

Third Quarter			Year-to-date	
2008	2007		2008	2007
321	333	Total revenues	993	883
(23)	(25)	Reimbursement revenues	(73)	(71)
\$ 298	\$ 308	Net revenues	\$ 920	\$ 812
(10)	7	Income (loss) from continuing operations	18	(48)
-	1	Income tax expense (recovery)	(2)	(23)
2	2	Net interest expense	4	2
-	1	Mark-to-market on interest rate swaps	(2)	-
25	24	Depreciation and amortization	75	56
17	35	EBITDA	93	(13)
12	3	Restructuring charges, net	13	41
11	-	Asset impairment	11	-
-	-	Valuation provisions	3	6
1	-	Loss on sale of a business/investment	3	1
-	-	(Reversal) provision for FDA-related costs	(10)	61
-	11	Acquisition integration	2	14
\$ 41	\$ 49	Adjusted EBITDA	\$ 115	\$ 110
14%	16%	Adjusted EBITDA margin	13%	14%

Consolidated net revenues which exclude reimbursement revenues associated with reimbursed expenses in the MDS Pharma Services segment, were down 3% on a reported basis to \$298 million for the third quarter of 2008 compared to \$308 million last year. Foreign exchange impacts increased net revenue in the third quarter of 2008 compared to the third quarter of 2007 by approximately \$12 million or 4%. A sale of certain product lines within MDS Nordion reduced revenue by \$7 million in the third quarter of 2008 compared to the same period in the prior year.

MDS Pharma Services net revenues increased 3% compared to the same period in 2007, with growth in early-stage, partially offset by declines in late-stage net revenues. MDS Nordion revenues were down 5% compared to the same period in 2007, primarily as a result of the sale of certain product lines in 2008. MDS Analytical Technologies revenues were down 9% primarily due to the timing of the mass spectrometer shipments to the joint ventures. End-user revenues for mass spectrometers grew by 5%.

The loss from continuing operations for the third quarter of 2008 was \$10 million compared to income of \$7 million reported for the same period in 2007. The third quarter of 2008 includes an \$8 million after-tax charge associated with restructuring activities at MDS Pharma Services and MDS Analytical Technologies and a \$8 million after-tax asset impairment charge related to a Pharma Services facility. Income from continuing operations for the third quarter of 2007 includes an after-tax acquisition integration expense of \$6 million.

Adjusted EBITDA for the quarter was \$41 million, down 16% compared to \$49 million reported for last year. MDS Nordion adjusted EBITDA increased by \$1 million to \$23 million in the third quarter of 2008. MDS Analytical Technologies adjusted EBITDA declined \$6 million to \$21 million. MDS Pharma Services reported an adjusted EBITDA loss of \$2 million in the quarter compared to adjusted EBITDA of \$4 million last year. The net impact of foreign exchange impacts on adjusted EBITDA in the third quarter of 2008, compared to the third quarter of 2007 was an increase of \$2 million. In the third quarter of 2008, we experienced a negative impact of approximately

MANAGEMENT'S DISCUSSION AND ANALYSIS

\$4 million on adjusted EBITDA from the net impact of foreign exchange, due to the year-over-year weakness of the U.S. dollar; however, this was partially offset by a \$2 million foreign exchange gain on the revaluation of net monetary assets, compared to a \$4 million foreign exchange loss on the revaluation of net monetary assets in the third quarter of 2007.

Adjustments reported for the third quarter of 2008 include \$12 million expense related to restructuring charges, \$2 million of which was reported in equity earnings related to our MDS Analytical Technologies joint ventures, and \$11 million asset impairment charge related to a MDS Pharma Services facility in Montreal, Canada and \$1 million loss related to sale of business. In the third quarter of 2007, adjustments included \$3 million of restructuring costs and \$11 million of integration costs incurred by MDS Analytical Technologies associated with the MD acquisition.

Selling, general, and administration (SG&A) expenses for the quarter totalled \$63 million and 21% of net revenues compared to \$66 million and 21% last year. The decrease is due to lower incentive and stock-based compensation expense which was partially offset by the impact of foreign exchange.

We spent \$19 million on R&D activities in the third quarter this year, compared to spending of \$20 million last year. The decrease in R&D spending was due to the reduction in spending in MDS Nordion and on certain MDS Analytical Technologies projects in the third quarter of 2008 as they neared completion, which was partially offset by the impact of foreign exchange.

Consolidated depreciation and amortization expense increased \$1 million compared to last year. Capital expenditures for the quarter were \$14 million compared to \$27 million in the third quarter of 2007. Capital expenditures were higher in 2007 due to an investment in an early-stage MDS Pharma Services facility, which was completed in the first quarter of 2008.

Other income for the quarter includes the \$2 million foreign exchange gain compared to a \$4 million foreign exchange loss in the third quarter of 2007, described above.

In the third quarter of 2008, we repurchased 1.0 million shares for \$15 million as part of our Normal Course Issuers Bid (NCIB), and we have 121 million Common shares outstanding as of July 31, 2008.

Reported loss per share from continuing operations was \$0.08 for the quarter, compared to earnings per share of \$0.05 in 2007 which included a \$0.01 loss per share from discontinued operations. Adjusted earnings per share from continuing operations for the quarter were \$0.06 compared to \$0.13 earned in the same period last year, primarily as a result of lower adjusted EBITDA, and higher adjusted tax expense. Adjusted earnings per share and adjusted income from continuing operations for the two periods were as follows:

Earnings Per Share

	Third Quarter		Year-to-date	
	2008	2007	2008	2007
Basic earnings (loss) per share from continuing operations – as reported	\$ (0.08)	\$ 0.06	\$ 0.15	\$ (0.36)
Adjusted for (after tax):				
Restructuring charges, net	0.06	0.01	0.07	0.24
FDA-related provision	-	-	(0.06)	0.30
Asset impairment	0.06	-	0.06	-
Valuation provisions	-	-	0.03	0.04
Mark-to-market on interest rate swaps	-	0.01	(0.02)	0.01
MAPLE investment tax credits	-	-	-	(0.02)
Loss on sale of business and long-term investments	0.02	-	0.02	0.02
Acquisition integration	-	0.05	0.01	0.07
Tax rate changes	-	-	(0.09)	-
Adjusted EPS	\$ 0.06	\$ 0.13	\$ 0.17	\$ 0.30

**Income from Continuing Operations
(\$ millions)**

	Third Quarter		Year-to-date	
	2008	2007	2008	2007
Income (loss) from continuing operations – as reported	\$ (10)	\$ 7	\$ 18	\$ (48)
Adjusted for (after tax):				
Restructuring charges, net	8	2	9	35
FDA-related provision	-	-	(7)	40
Asset impairment	8	-	8	-
Valuation provisions	-	-	3	5
Mark-to-market on interest rate swaps	-	1	(2)	-
MAPLE investment tax credits	-	-	-	(2)
Loss sale of business and long-term investments	2	-	2	2
Acquisition integration	-	6	1	8
Tax rate changes	-	-	(11)	-
Adjusted income from continuing operations	\$ 8	\$ 16	\$ 21	\$ 40

**MDS Pharma Services
Financial Highlights
(\$ millions)**

Third Quarter					Year-to-date				
2008	% of net revenues	2007	% of net revenues		2008	% of net revenues	2007	% of net revenues	
\$ 68	56%	\$ 62	53%	Early-stage	\$ 199	54%	\$ 188	53%	
54	44%	56	47%	Late-stage	171	46%	166	47%	
122	100%	118	100%	Net revenues	370	100%	354	100%	
\$ 23	-	\$ 25	-	Reimbursement revenues	\$ 73	-	\$ 71	-	
145		143		Total revenues	443		425		
(94)	(77%)	(82)	(69%)	Cost of revenues	(277)	(75%)	(251)	(71%)	
(23)	-	(25)	-	Reimbursed expenses	(73)	-	(71)	-	
(31)	(25%)	(30)	(25%)	Selling, general, and administration	(93)	(25%)	(95)	(27%)	
(9)	(7%)	(8)	(7%)	Depreciation and amortization	(26)	(7%)	(26)	(7%)	
(8)	(7%)	(1)	(1%)	Restructuring charges	(9)	(2%)	(32)	(9%)	
(11)	(9%)	-	-	Asset impairment	(11)	(3%)	-	-	
-	-	(2)	(2%)	Other income (expense)	14	(4%)	(68)	(19%)	
(31)	(25%)	(5)	(4%)	Operating income (loss)	(32)	(9%)	(118)	(33%)	
				Adjustments:					
-	-	-	-	Reversal (provision) for FDA-related costs	(10)	(3%)	61	17%	
8	7%	1	1%	Restructuring charges	9	2%	32	9%	
11	9%	-	-	Asset impairment	11	3%	-	-	
1	1%	-	-	Loss (gain) on sale of a business	(1)	-	4	1%	
9	7%	8	7%	Depreciation and amortization	26	7%	26	7%	
\$ (2)	(2%)	\$ 4	3%	Adjusted EBITDA	\$ 3	1%	\$ 5	1%	
				Margins:					
23%		31%	-	Gross margin	25%		29%	-	
(2%)		3%	-	Adjusted EBITDA	1%		1%	-	
\$ 7	-	\$ 21	-	Capital expenditures	\$ 22	-	\$ 28	-	

In the third quarter of 2008, MDS Pharma Services net revenues increased by 3% as reported versus the prior year quarter. The impact on revenue of the change in foreign exchange rates from the third quarter of 2007 to the third quarter of 2008 was an increase of approximately \$6 million or 5%. Our early-stage business had higher revenue as a result of increased Phase I activity at our new Phoenix facility and increased demand in bioanalytical services. The late-stage revenue decreased primarily as a result of delays in the start of projects in both our central lab and Phase II-IV businesses in the third quarter of 2008.

New orders in the third quarter of 2008 were \$169 million, up 42% compared to the same period last year. We saw a \$55 million or 13% increase in period-end backlog and 13% increase in average backlog from the second quarter of 2008. Period-end backlog was up 19% compared to the same period in 2007.

Orders		New Orders	Average Backlog	Period End Backlog
	Fiscal 2007 – Quarter 1	159	450	472
	Quarter 2	103	450	428
	Quarter 3	119	420	408
	Quarter 4	134	385	375
	Fiscal 2008 – Quarter 1	177	360	395
	Quarter 2	165	405	431
	Quarter 3	169	456	486

MDS Pharma Services had an operating loss of \$31 million for the quarter, compared to a loss of \$5 million for the same period last year. In the third quarter of 2008, we recorded an \$8 million restructuring charge to improve profitability at MDS Pharma Services compared to a \$1 million charge in the third quarter of 2007. As well, in the third quarter of 2008, a \$11 million asset impairment charge was recorded related to a facility in Montreal, Canada and \$1 million loss on sale of business.

MDS Pharma Services adjusted EBITDA for the third quarter of 2008 decreased by \$6 million to a loss of \$2 million compared to the same period in 2007. This decrease was primarily the result of lower sales excluding the impact of foreign exchange, higher margin services reported in our late-stage business in the third quarter of 2007 and increased investments in customer facing business development and the ramp-up of our Phoenix Phase 1 clinic in 2008. These factors plus inflation offset the impact of savings achieved from our restructuring activities that were completed 2007. The negative impact of foreign exchange on our operations resulting from the decline of the U.S. dollar from the third quarter of 2007 to the third quarter of 2008 was approximately \$3 million. This was offset by a \$3 million increase in adjusted EBITDA from the impact of foreign exchange on the revaluation of certain assets and liabilities which was a \$1 million gain in the third quarter of 2008, versus a \$2 million loss in the third quarter of 2007. In addition, we recorded a \$1 million provision associated with customer settlements in the third quarter of 2008.

SG&A of \$31 million in the third quarter of 2008 was \$1 million higher than the third quarter of 2007 due primarily to the negative impact of foreign exchange on spending from the strengthening of the Canadian dollar, British pound and the euro over the same period and increased investment in customer facing business development, which was partially offset by lower stock-based compensation.

During the third quarter of 2008, we initiated our restructuring plan announced on July 18, 2008, including additional headcount reductions and the closure of several offices. Savings from these actions will be realized over the next two quarters. In the fourth quarter of 2008, we expect to incur approximately \$6 million - \$8 million of additional restructuring charges related to these activities.

Capital expenditures in the pharmaceutical services segment were \$7 million compared to \$21 million in the third quarter of 2007. In the third quarter of 2007 capital expenditures were higher due to expansion of our early-stage facilities in Phoenix, Arizona.

Regulatory Review of Montreal Bioanalytical Operations

The six-month time limit imposed by the FDA for generic audits has passed, and we believe we have substantially completed all required site audits for generic customers. We continue to receive a limited number of study audit requests from innovator customers and expect we may continue to receive these requests in low numbers in the coming months.

MANAGEMENT'S DISCUSSION AND ANALYSIS

We have responded to questions from European regulators about the nature of the work that was done for the FDA. We have received a response from the European regulators that they are satisfied with the work completed for the FDA and do not expect to incur any significant costs associated with actions, if any of European regulators.

During the second quarter of 2007, we approved and recorded a \$61 million provision to reimburse clients who have incurred or will incur third party audit costs or study re-run costs to complete the work required by the FDA and other regulators. We have utilized \$19 million of this reserve for such costs, an amount that was partially offset by a foreign currency translation gain on the US-dollar denominated components of the cost estimate and we reversed \$10 million of this provision in the second quarter of 2008. Although we believe we have substantially completed the majority of all required site audits, we still await final reimbursement requests for many of these audits. Based on information currently available, we believe the remaining a reserve of \$32 million is sufficient to cover any agreements reached with clients for study audits, study re-runs, and other related costs.

**MDS Nordion
Financial Highlights
(\$ millions)**

Third Quarter					Year-to-date						
2008		% of net revenues	2007		% of net revenues	2008		% of net revenues	2007		% of net revenues
\$	72	100%	\$	76	100%	\$	207	98%	\$	210	98%
	-			-			5	2%		4	2%
	72	100%		76	100%		212	100%		214	100%
	(35)	(49%)		(39)	(51%)		(111)	(52%)		(108)	(50%)
	(1)	(1%)		-			(3)	(1%)		(2)	(1%)
	(12)	(17%)		(13)	(17%)		(36)	(17%)		(36)	(17%)
	-	-		(1)	(1%)		(2)	(1%)		(3)	(1%)
	(3)	(4%)		(4)	(5%)		(9)	(4%)		(10)	(5%)
	(1)	(1%)		(1)	(1%)		(6)	(3%)		-	-
	20	28%		18	24%		45	21%		55	26%
	-	-		-			4	2%		(1)	(1%)
	3	4%		4	5%		9	4%		10	5%
\$	23	32%	\$	22	29%	\$	58	25%	\$	64	30%
	50%	-		49%	-		47%	-		49%	-
	32%	-		29%	-		25%	-		30%	-
\$	3	-	\$	3	-	\$	9	-	\$	5	-

MDS Nordion revenues were down \$4 million or 5% from the third quarter of 2007 on a reported basis. In the third quarter of 2007, we reported \$7 million of revenue associated with the external beam therapy and self-contained irradiator product lines that were sold on the first day of the third quarter of 2008. Reported revenues increased due to a foreign exchange impact of \$2 million related to the decline of the U.S. dollar in the third quarter of 2008 compared to the third quarter of 2007. Excluding the impact of divestures and foreign exchange third quarter 2008 revenues were up \$1 million compared to the same period in 2007 primarily driven by higher cobalt sales.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating income in the third quarter of 2008 was \$20 million up \$2 million compared to last year and adjusted EBITDA was \$23 million this year compared to \$22 million in 2007. The impact of lower revenue was offset by higher gross margins on increased cobalt sales.

SG&A in the third quarter of 2008 was down \$1 million to \$12 million compared to the same period last year. R&D investment was nil and \$1 million in the third quarter of 2008 and 2007, respectively.

Capital expenditures for MDS Nordion were \$3 million, essentially flat to last year.

Effective May 1, 2008, we completed the sale of our external beam therapy and self-contained irradiator product lines to Best Medical International Inc. The \$4 million loss was previously recorded in the first quarter of 2008. The operating results for these product lines were not reported in the MDS Nordion segment in the third quarter of 2008, however the operating results were included in 2007 and up to the end of the second quarter of 2008.

MDS Analytical Technologies
Financial Highlights
 (\$ millions)

Third Quarter					Year-to-date				
2008	% of net revenues	2007	% of net revenues		2008	% of net revenues	2007	% of net revenues	
\$ 83	80%	\$ 94	82%	Product revenues	\$ 268	79%	\$ 194	80%	
21	20%	20	18%	Service revenues	70	21%	50	20%	
104	100%	114	100%	Net revenues	338	100%	244	100%	
(60)	(58%)	(70)	(61%)	Cost of product revenues	(185)	(55%)	(155)	(64%)	
(3)	(3%)	(1)	(1%)	Cost of service revenues	(11)	(3%)	(2)	(1%)	
(18)	(18%)	(20)	(18%)	Selling, general, and administration	(59)	(17%)	(37)	(15%)	
(19)	(18%)	(19)	(17%)	Research and development	(59)	(17%)	(45)	(18%)	
(12)	(12%)	(12)	(11%)	Depreciation and amortization	(39)	(12%)	(19)	(8%)	
(2)	(2%)	-	-	Restructuring charges	(2)	(1%)	-	-	
1	(1%)	(3)	(3%)	Other income (expense)	(1)	-	(5)	(2%)	
(9)	(9%)	(11)	(10%)	Operating loss	(18)	(5%)	(19)	(8%)	
				Adjustments:					
14	13%	15	13%	Equity earnings	38	11%	40	16%	
4	4%	-	-	Restructuring charges	4	1%	-	-	
-	-	11	10%	Acquisition integration	2	1%	14	6%	
12	12%	12	11%	Depreciation and amortization	39	12%	19	8%	
\$ 21	20%	\$ 27	24%	Adjusted EBITDA	\$ 65	19%	\$ 54	22%	
				Margins:					
39%	-	38%	-	Gross margin	42%	-	35%	-	
20%	-	24%	-	Adjusted EBITDA	19%	-	22%	-	
\$ 2		\$ 2		Capital expenditures	\$ 5		\$ 6		

The mass spectrometer product family of MDS Analytical Technologies carries out the majority of its business through joint ventures. Currently, MDS generates the large majority of its income associated with these joint ventures from the net income of the joint ventures, and not from its sales to the joint ventures. We equity account for the joint ventures and therefore the majority of the income related to the mass spectrometer product family is reflected in equity earnings, which represents our share of the net income of the joint ventures. Our reported revenues are related to products manufactured and services performed for the joint ventures and are not a direct indicator of end-customer revenues. We include equity earnings in our calculation of adjusted EBITDA, however, these earnings are not included in operating income.

MDS Analytical Technologies revenue decreased by \$10 million to \$104 million in the third quarter of 2008, compared to the same period in the prior year, despite an increase due to a foreign exchange of \$4 million related to the decline of the U.S. dollar in the third quarter of 2008 compared to the third quarter of 2007. Revenues in our mass spectrometer, drug discovery and bio-research product families were down in the third quarter of 2008 compared to the same three-month period in 2007. The declines in mass spectrometers revenues were primarily a result of lower volume of units shipped to our joint ventures. End-user revenues for mass spectrometer products grew 5% in the third quarter including the impact of foreign exchange with strong growth in service revenue. Compared to the same period last year end-user unit volume was essentially flat. The decline in drug discovery was primarily a result of lower sales of high-end instruments in North America.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MDS Analytical Technologies reported an operating loss of \$9 million for the third quarter of 2008 compared to a \$11 million loss in the third quarter of 2007. Equity earnings, which are not included in operating income and represent our share of earnings from the mass spectrometer joint ventures, were \$14 million for the third quarter of 2008 versus \$15 million for the third quarter of 2007. During the third quarter of 2008, a \$2 million restructuring charge was recorded to improve profitability of our bio-research and drug discovery product families. In addition, the equity earnings for the third quarter of 2008 included a \$2 million restructuring charge representing our share of restructuring activities at the joint ventures. In the third quarter of 2007, \$11 million of acquisition integration costs were reported.

Adjusted EBITDA for the quarter was \$21 million compared to \$27 million during the same period last year. The \$6 million decrease was primarily due to lower revenues, and higher costs including manufacturing overhead. The adjusting items were \$4 million for restructuring charges in the third quarter of 2008 and \$11 million of integration expense related to the Molecular Devices acquisition for the third quarter of 2007.

SG&A decreased for the third quarter of 2008 by \$2 million to \$18 million. The third quarter of 2007 included integration costs associated with the MD acquisition. R&D expense was flat at \$19 million for the third quarter of 2008 and 2007. Depreciation and amortization expense was also flat compared to last year.

During the third quarter of 2008, we initiated restructuring plans previously announced on July 18, 2008 primarily related to headcount reductions. Savings from these actions will be realized over the next two quarters.

Capital expenditures were \$2 million this year and last.

During the quarter, MDS Analytical Technologies acquired Blueshift Biotechnologies, a developer of screening platforms for life sciences research and maker of the IsoCyte™ benchtop laser scanning cytometer. This acquisition expands MDS Analytical Technologies' capabilities in cellular analysis, and further strengthens the company's global sales and service offering. Integration of Blueshift is progressing well and market enthusiasm for IsoCyte continues to gain momentum with additional orders placed during the quarter.

Discontinued Operations

The results of our discontinued businesses for the third quarter of 2008 were as follows:

(\$ millions)	Third Quarter		Year-to-date	
	2008	2007	2008	2007
Net revenues	\$ -	\$ -	\$ -	\$ 95
Cost of revenues				(57)
Selling, general and administration				(15)
Operating income	-	-	-	23
Gain on sale of discontinued operations				904
Interest income				1
Income taxes				(117)
Minority interest				(4)
Equity earnings				1
Income from discontinued operations	-	-	-	808
Basic EPS from discontinued operations	\$ -	\$ -	\$ -	\$ 5.99

The results from discontinued operations for 2007 reflect only the Canadian diagnostic services business.

Liquidity and Capital Resources

(\$ millions except current ratio)	July 31, 2008		October 31, 2007	Change
Cash, cash equivalents and short-term investments	\$ 130	\$ 324		(60%)
Operating working capital ¹	\$ 112	\$ 59		90%
Current ratio (excludes net assets held for sale)	1.9	1.6		19%

¹ Our measure of operating working capital equals accounts receivable plus unbilled revenue and inventory less accounts payable, accrued liabilities, and current deferred revenue.

During the third quarter of 2008, \$5 million of cash was generated. For the first nine months of 2008, \$194 million of cash and short-term investments were utilized including \$89 million of scheduled long-term debt principle and interest repayments, \$65 million of income taxes related to the 2007 gain on the sale of the diagnostics business, an increase in operating working capital resulting from first quarter payouts for year-end compensation and fourth quarter capital expenditures. The increase in the current ratio is primarily attributable to the reduction of current liabilities related to the payment of long term debt and income taxes payable and the movement of an \$83 million note receivable to current.

We expect to have net operating cash inflows for the last quarter of fiscal 2008. Expected cash outflows include FDA-related reimbursements to our customers and the payment of severance obligations associated with restructuring activities. In addition to cash generated by operations and cash on hand, we have available a CAD\$500 million, five-year, committed, revolving credit facility, that expires in July, 2010, to fund our liquidity requirements. We borrowed CAD\$15 million under this facility to fund working capital requirements over the quarter end. There were no borrowings under this facility at September 4, 2008.

Cash used by investing activities for continuing operations totalled \$13 million for the third quarter of 2008, compared to outflows of \$94 million for the third quarter of 2007. Capital expenditures for the quarter totalled \$14 million, compared to \$27 million of expenditures in the third quarter of 2007 which was higher due to investment in our Phase I facility in Phoenix, USA. We received \$15 million in cash from the sale of our external beam therapy and self-contained irradiator product lines. Also in the quarter, we acquired Blueshift Biotechnologies for \$13 million, expanding MDS Analytical Technologies' capabilities in cellular analysis. \$1.5 million of the

MANAGEMENT'S DISCUSSION AND ANALYSIS

purchase price has been placed in escrow. This escrow amount less claims for indemnifications will be released to the vendors on June 26, 2009. An additional amount of \$0.5 million has been placed in escrow which is contingent on the achievement of certain milestones. In the third quarter of 2007, we made \$67 million in net purchases of short-term investments, which were subsequently sold to pay off long-term debt.

Financing activities generated \$1 million of cash in the quarter, which included the CAD\$15 million draw on our credit facility. This was offset by \$15 million of purchases under our NCIBs during the quarter which retired 1.0 million Common shares representing less than 1% of our outstanding Common shares. On a year-to-date basis, we have purchased 1.9 million shares for \$32 million under our NCIB. Under the terms of our current NCIB, we are entitled to purchase 4.1 million Common shares between July 3, 2008 and July 2, 2009, of which 0.4 million shares have been purchased to date. Cash generated from financing activities for the third quarter of fiscal 2007 was \$5 million, primarily driven by share issuance related to stock options exercised in the period.

We believe that cash flow generated from operations, coupled with available borrowings from existing financing sources, will be sufficient to meet our anticipated requirements for operations, capital expenditures, research and development expenditures, FDA settlements and restructuring costs. At this time, we do not reasonably expect any presently known trend or uncertainty to affect our ability to access our current sources of cash. We remain in compliance with all covenants for our senior unsecured notes and our bank credit facility.

Asset Backed Commercial Paper (ABCP)

The Company owns investments in non-bank sponsored ABCP issued by two trusts with an original cost of \$17 million. These investments matured in September 2007, but as a result of liquidity issues in the ABCP market, they did not settle at maturity.

In September 2007, a Pan-Canadian Investors Committee for Third Party Asset Backed Commercial Paper (the Committee) was formed to propose a solution to the liquidity problem in the ABCP market. At that time, the Company performed a probability-weighted discounted cash flow adjustment valuation reflecting the uncertainties in the timing and the amount of its investment to be recovered. This analysis was performed for both a short-term and long-term hold scenario and based on this, MDS took a provision of 10% or \$2 million in the fourth quarter 2007.

In March 2008, the Committee filed with the Ontario Superior Court of Justice a restructuring arrangement to convert the ABCP into various long-term floating rate notes with maturities matching the maturities of the underlying assets. A substantial majority of ABCP holders voted in favour of the Committee's restructuring plan, subject to final judicial approval. Prior to any distribution, an appeal was issued by dissenting investors, delaying the settlement of the restructuring proposal. Subsequent to quarter end, the Ontario Court of Appeal denied this motion and the investor committee announced a targeted completion date of September 30, 2008. The dissenting investor group have since filed an appeal with the Supreme Court of Canada.

In the second quarter, the Company revised its valuation of its investment in ABCP to reflect the additional information available in the market and to consider the impact of the Committee's restructuring plan to convert the ABCP into various long-term floating rate notes with revised maturities. The DBRS rating for the majority of the new notes is expected to be AA and BB. As a result, in the second quarter of 2008 an additional provision of \$3 million was recorded to bring the total reserve to \$5 million or 30% of face value.

The Company has continued to use a scenario-based probability-weighted discounted cash flow approach to value its investment at July 31, 2008 which considered the revised credit quality of the investments, estimated renegotiated maturity dates of approximately five to eight years, estimated coupon rates of 3.1% to 3.6% and estimated restructuring fees. During the quarter, market conditions surrounding liquidity of ABCP continued to experience some volatility, however no additional adjustment was deemed necessary. The assumptions used in estimating the fair value of the ABCP are subject to change, which may result in further adjustments to non-operating results in the future.

Contractual Obligations

There have been no material changes in contractual obligations since October 31, 2007 and there has been no substantive change in any of our long-term debt or other long-term obligations since that date. We have not entered into any new guarantees of the debt of third parties, nor do we have any off-balance sheet arrangements.

Derivative Instruments

We use derivative financial instruments to manage our foreign currency and interest rate exposure. These instruments have consisted of forward foreign exchange and option contracts and interest rate swap agreements entered into in accordance with established risk management policies and procedures. All derivative instrument contracts are with banks listed on Schedules I to III to the Bank Act (Canada) and the Company utilizes financial information provided by these banks to assist in the determination of fair market values of the financial instruments.

The net mark-to-market value of all derivative instruments at July 31, 2008 was a liability of \$2 million.

In addition to the above derivatives, isotope supply agreements include terms that result in the creation of an embedded currency derivatives under SFAS 133, "Accounting for Derivative Instruments and Hedging Activities". The fair value of the derivatives at July 31, 2008 are recorded as an asset of \$4 million and a liability of \$2 million.

Capital Structure

(\$ millions)	July 31, 2008	October 31 2007	Change
Long-term debt	\$ 299	\$ 384	(22%)
Less: cash and cash equivalents and short-term investments	(130)	(324)	(60%)
Net debt	169	60	182%
Shareholders' equity	1,797	1,897	(5%)
Capital employed ¹	\$ 1,966	\$ 1,957	n / m

¹ Capital employed is a measure of how much of our net assets is financed by debt and equity.

Long-term debt decreased \$84 million primarily due to \$81 million of repayment of the long-term debt in the first quarter 2008 and the revaluation of our Canadian dollar dominated long-term debt to reflect the strength of the U.S. dollar at the end of the third quarter of 2008, compared to our 2007 fiscal year end.

Quarterly Highlights

Following is a summary of selected financial information derived from the Company's unaudited interim period consolidated financial statements for each of the eight most recently completed quarters. This financial data has been prepared in accordance with U.S. GAAP and prior periods have been restated to reflect the discontinuance of the operations discussed above.

(\$ millions, except earnings per share)

	Trailing Four Quarters	July 2008	April 2008	Jan 2008	Oct 2007
Net revenues	\$ 1,227	\$ 298	\$ 326	\$ 296	\$ 307
Operating income (loss)	\$ (19)	\$ (22)	\$ 8	\$ (6)	\$ 1
Income from continuing operations	\$ 33	\$ (10)	\$ 11	\$ 17	\$ 15
Net income	\$ 31	\$ (10)	\$ 11	\$ 17	\$ 13
Earnings per share from continuing operations					
Basic and diluted	\$ 0.27	\$ (0.08)	\$ 0.09	\$ 0.14	\$ 0.12
Earnings per share					
Basic	\$ 0.26	\$ (0.08)	\$ 0.09	\$ 0.14	\$ 0.11
Diluted	\$ 0.26	\$ (0.08)	\$ 0.09	\$ 0.14	\$ 0.11

(\$ millions, except earnings per share)

	Trailing Four Quarters	July 2007	Apr 2007	Jan 2007	Oct 2006
Net revenues	\$ 1,062	\$ 308	\$ 263	\$ 241	\$ 250
Operating income (loss)	\$ (112)	\$ (4)	\$ (96)	\$ (9)	\$ (3)
Income (loss) from continuing operations	\$ (36)	\$ 7	\$ (55)	\$ -	\$ 12
Net income	\$ 805	\$ 7	\$ 737	\$ 16	\$ 45
Earnings (loss) per share from continuing operations					
Basic and diluted	\$ (0.26)	\$ 0.06	\$ (0.40)	\$ 0.00	\$ 0.08
Earnings per share					
Basic	\$ 5.83	\$ 0.05	\$ 5.37	\$ 0.11	\$ 0.30
Diluted	\$ 5.81	\$ 0.05	\$ 5.35	\$ 0.11	\$ 0.30

Items on the pre-tax basis that impact the comparability of operating income include:

- Results for the quarter ended July 31, 2008 reflect a \$12 million restructuring charge and a \$11 million asset impairment charge
- Results for the quarter ended April 30, 2008 reflect income of \$10 million from the reduction of the FDA provision
- Results for the quarter ended January 31, 2008 reflect a \$11 million gain from the reduction of future Canadian income tax rates
- Results for the quarter ended April 30, 2007 reflect a \$792 million net gain from the sale of our diagnostics businesses, 41 days of operating results of Molecular Devices, \$61 million of charges related to assisting clients in respect to the FDA review, and \$25 million of restructuring charges.
- Results for the quarter ended January 31, 2007 reflect the impact of restructuring charges totalling \$13 million.

Outlook

In the first three quarters of 2008, we have seen strong growth in new order wins at MDS Pharma Services totalling \$511 million. While we expected these new orders to begin driving increased revenue in the second half of 2008, this increase has not yet materialized due to delays

MANAGEMENT'S DISCUSSION AND ANALYSIS

in the start dates for certain new studies primarily in our late-stage business. We now expect the primary increase in revenue to occur in fiscal 2009. Our attention continues to be focused on restoring profitability by streamlining and strengthening the solid platforms we have throughout our business. We are continuing to invest in building our global business development capability to accelerate growth in key global markets. This has included hiring experienced staff, new sales incentive programs, training and a focus on winning more profitable business. These initiatives include corresponding growth investments in facilities such as our Phoenix Phase I facility and our Beijing central laboratory, as well as investments in customer-facing systems designed to achieve our On-Time, High-Quality brand promise. At the same time, we continue to streamline our business through restructuring initiatives announced in the third quarter of 2008. We believe these actions, combined with the increased backlog, will drive accelerated growth and increased profits in 2008 and beyond.

MDS Nordion maintained traditional levels of revenue and improved adjusted EBITDA in the third quarter of 2008 after the divestiture of certain product lines. We remain encouraged by the ongoing global expansion of our TheraSphere® product line and continue to seek new partnerships for growth in medical isotopes. Our expanded long-term contract for cobalt supply with Rosenergoatom positions MDS Nordion well to serve continued growth in cobalt sterilization demand in the long term. We are encouraged by the projected outlook for expected growth in our global markets and we are focusing on being well positioned in these markets to capitalize on these opportunities.

On May 16, 2008, AECL and the Government of Canada publicly announced their intention to discontinue the development work on the MAPLE reactors. At the same time, AECL and the Government of Canada also publicly announced that they will continue to supply medical isotopes from the current NRU, and will pursue a license extension of the NRU operation past its current expiry date of October 31, 2011. On July 9, 2008, we served AECL with a notice of arbitration proceedings seeking an order to compel AECL to fulfill its contractual obligations. We concurrently filed court claims for \$1.6 billion in damages against AECL and the Government of Canada.

In the second and third quarter, MDS Analytical Technologies has seen deferrals of capital expenditures for high-end instruments by pharmaceutical customers primarily in North America. This has negatively affected our second and third quarter results as these high-end instruments also command higher margins. We expect this market softness to continue at least until the end of 2008, and have taken actions to increase profitability including the restructuring initiatives announced in the third quarter of 2008. We continue to execute our strategy to shift manufacturing to Asia and to bring innovative new products to our customers through internal research and development and through the licensing and acquisition of new technologies.

MDS Inc. 2008 Guidance

To execute our strategy and drive increased profitability we have implemented a number of margin improvement activities in the third quarter of 2008 including the restructuring plans mentioned above. To reflect the impact of the third quarter of 2008 and the expected \$6 million - \$8 million fourth quarter of 2008 restructuring charges, an asset impairment charge associated with a MDS Pharma Services facility and the delay in increased revenue at MDS Pharma Services, we have revised our 2008 guidance as follows:

(\$ millions, except per share amount)

	2007 Actual Results		September 2008 Guidance		June 2008 Guidance
Total revenues	\$	1,210	\$	1,330 – 1,350	\$ 1,350 – 1,400
Net revenue	\$	1,119	\$	1,230 – 1,250	\$ 1,250 – 1,290
Adjusted EBITDA	\$	145	\$	160 – 170	\$ 160 – 170
Adjusted EPS	\$	0.34	\$	0.27 – 0.33	\$ 0.27 – 0.33
Income (loss) from continuing operations	\$	(33)	\$	18 – 28	\$ 45 – 55
Basic EPS	\$	(0.25)	\$	0.15 – 0.23	\$ 0.37 – 0.45
Capital expenditures	\$	71	\$	50 – 60	\$ 60 – 70
Effective tax rate		41%		10% – 20%	10% – 20%

Our revised 2008 guidance is based on the following assumptions:

Net revenues for 2008 are expected to grow in the range of 10% - 12% based on: the net impact of the Molecular Devices acquisition, foreign exchange and the divestiture of the MDS Nordion external beam therapy and self-contained irradiator product lines, with increased revenues across all three business units. The decrease in the guidance range by \$20 million at the lower end and \$40 million at the higher end, from our July 2008 Guidance is primarily a result of the slower-than-expected ramp up of revenue at MDS Pharma Services due to the delay in the start of certain customer studies. Total revenue is a GAAP measure that includes a forecast for reimbursement revenues, which are then excluded from the calculation of net revenues.

Adjusted EBITDA is expected to grow at 10% - 17% and to be in the range of \$160 million - \$170 million driven by: productivity improvements, revenue growth across MDS, and the full-year impact of the acquisition of Molecular Devices. The cost reduction actions implemented by the Company are expected to offset the impact of lower revenues at MDS Pharma Services and we are therefore maintaining our adjusted EBITDA guidance consistent with that issued in June, 2008. For 2008, the adjusting items used in calculating adjusted EBITDA include; the revision of our best estimate of the remaining FDA provision, the provision for ABCP, the loss on the sale of MDS Nordion's divested product lines, restructuring and asset impairment charges and certain other items.

Adjusted earnings per share (adjusted EPS) for 2008 are expected to be in the range of \$0.27 - \$0.33. In addition to the adjusting items outlined above, adjusted EPS also excludes a first-quarter 2008 gain on deferred taxes associated with future Canadian income tax rates.

Income from continuing operations and basic EPS for 2008 primarily reflects adjusted EBITDA growth and the income tax gain described above, offset by the adjusting items used in calculating adjusted EBITDA as described above. The decrease in the range for income from continuing operations of \$27 million from our June 2008 Guidance is due to expected after-tax impact of the third and fourth quarter 2008 restructuring charges, the asset impairment charge recorded in the third quarter of 2008 and certain other charges that are treated as adjusting items in the calculation of adjusted EBITDA.

Capital expenditures in 2008 are expected to be lower than 2007 as we are deferring several projects to 2009 based on lower forecast profitability for the remainder of the year.

The effective tax rate in 2008 is expected to remain in the range of 10% - 20% reflecting the first quarter 2008 gain associated with the reduction of future Canadian income tax rates, the use of foreign tax loss carry-forwards and research and development investment tax credits. There is no change in our effective tax rate from previously issued guidance.

Our income from continuing operations and basic EPS could be materially reduced, including the possibility of a significant loss in 2008, if we determine there is an impairment of the intangible asset associated with the MAPLE reactors. The above item could also affect our effective tax rate.

Canadian GAAP Reconciliation

Note 22 to our consolidated financial statements for the third quarter of 2008 contains a reconciliation of results reported in U.S. GAAP to the results based on Canadian GAAP. The material reconciling items for net income in the quarter are deferred development costs that are capitalized for Canadian GAAP purposes and expensed under U.S. GAAP, a difference in the methodologies used to value certain stock-based compensation programs and certain contracts that under U.S. GAAP have an embedded derivative associated with them. In the third quarter of 2007 the differences relate to accounting for joint ventures, treatment of investment tax credits, deferred development costs, stock-based compensation plans and hedge contracts.

Our Canadian Supplement to this MD&A provides descriptions and reconciliations of the material differences between this MD&A based on U.S. GAAP and the financial information for the quarter based on Canadian GAAP.

Accounting Changes

In July 2006, the U.S. Financial Accounting Standards Board (FASB) issued FASB interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109". FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 was adopted by the Company in the first quarter of fiscal 2008 and we did not have to record any change to liabilities for uncertain tax positions. For additional information see Note 2 of our unaudited interim financial statements.

Recent Accounting Pronouncements

a. In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements". SFAS 157 provides guidance for using fair value to measure assets and liabilities. It also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and does not expand the use of fair value in any new circumstances. SFAS 157 is effective for financial statements

MANAGEMENT'S DISCUSSION AND ANALYSIS

issued for fiscal years beginning after November 15, 2007 and is required to be adopted by the Company on November 1, 2008. The Company does not expect the adoption of SFAS 157 to have a material impact on its consolidated results of operations and financial condition.

b. In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115" (SFAS 159). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Company is required to adopt the provisions of SFAS 159 on November 1, 2008 and is currently evaluating the effects of the adoption of SFAS 159. The adoption, however, is not expected to have a material impact on the consolidated results of operations and financial condition.

c. In December 2007, the FASB issued SFAS No. 141R, "Business Combinations", a substantial amendment to SFAS 141. The objective of this statement is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. To accomplish that, this statement establishes principles and requirements for how the acquirer: a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non controlling interest in the acquiree; b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Company is required to adopt the provisions of SFAS 141R effective for acquisitions after October 31, 2009. The Company is currently evaluating the effects that the adoption of SFAS 141R will have on its consolidated results of operations and financial condition and is not yet in a position to determine such effects.

d. In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51". SFAS 160 is effective for fiscal years beginning after December 15, 2008. The objective of this Statement is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements related to the noncontrolling interest held by others in entities that are consolidated by the reporting entity. The provisions of SFAS 160 are not expected to have a material impact on the Company's consolidated results of operations and financial condition.

e. In March 2008, the FASB issued SFAS no. 161, "Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement 133". SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. MDS plans to adopt the provisions of SFAS 161 in the first quarter ending January 31, 2009

f. In April 2008, the FASB issued Financial Statement Position, "Determination of the Useful Life of Intangible Assets" (FSP 142-3). FSP 142-3 provides guidance with respect to estimating the useful lives of recognized intangible assets acquired on or after the effective date and requires additional disclosure related to the renewal or extension of the terms of recognized intangible assets. FSP 142-3 is effective for fiscal years and interim periods beginning after December 15, 2008. The adoption is not expected to have a material impact on the Company's consolidated results of operations and financial condition.

MANAGEMENT'S DISCUSSION AND ANALYSIS

g. In May 2008, the FASB issued Financial Accounting Standard (SFAS) No. 162, "The Hierarchy of Generally Accepted Accounting Principles" (SFAS 162). Under SFAS 162, the U.S. GAAP hierarchy will now reside in the accounting literature established by the FASB. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements in conformity with U.S. GAAP. SFAS No 162 will not impact the Company's financial statements.

International Financial Reporting Standards

MDS has been monitoring the deliberations and progress being made by accounting standard setting bodies and securities regulators both in Canada and the United States with respect to their plans regarding convergence to International Financial Reporting Standards (IFRS). The Accounting Standards Board in Canada and the Canadian Securities Administrators (CSA) have recently confirmed that domestic issuers will be required to transition to IFRS for fiscal years beginning on or after January 1, 2011. The CSA Staff has proposed retaining the existing option for a domestic issuer that is also an Securities and Exchange Commission (SEC) registrant to use U.S. GAAP. Separately, the SEC in late 2007 also eliminated the requirement of reconciling financial statements to U.S. GAAP for foreign private issuers that file under IFRS effective November 15, 2007. On August 27, 2008, the SEC issued a proposal which would require registrants to issue their financial statement under IFRS beginning in 2014, 2015 or 2016 depending on the size of the issuer. MDS has not made an assessment of the impact of a conversion to IFRS.

MDS adopted U.S. GAAP as the primary reporting standard for the Company's consolidated financial statements in fiscal 2007. MDS commenced reporting under U.S. GAAP to improve the comparability of the financial information with that of its competitors, the majority of whom are U.S.-based multinational companies that report under U.S. GAAP.

Internal Control over Financial Reporting

As a result of our internal controls review during the preparation of our 2007 annual financial statements, we concluded that effective internal control over financial reporting was not maintained with respect to accounting for and disclosure of the fair value of compensation expense and period-end liabilities for certain stock-based incentive compensation plans. As this error resulted in a material audit adjustment to our statements for fiscal 2007 and a restatement of the 2007 interim financial statements to correct the Canadian to U.S. GAAP reconciliation tables in the notes to the financial statements, we concluded that this constituted a material weakness in the Company's internal control over financial reporting and that the Company's internal control over financial reporting was not effective as at October 31, 2007. Although we believe that the reported material weakness is narrow in scope and that it does not have a pervasive impact on internal control over financial reporting at MDS, we will continue to evaluate our internal control over financial reporting on an ongoing basis and will upgrade and enhance internal control over financial reporting as needed.

To address the identified material weakness, management implemented measures in the first quarter of 2008 to remediate the control deficiency, including review of certain stock-based incentive compensation plans with third-party compensation experts, the calculation of fair value for these plans using a Monte Carlo simulation, and a review of accounting regulations for stock-based compensation plans with third-party accounting experts. These measures have strengthened internal control associated with the calculation and reporting of the fair value of stock-based incentive compensation plan liability and expense. These measures were implemented prior to the preparation of the financial statements for the quarter ended January 31, 2008 and will be subject to the Company's assessment of internal controls in fiscal 2008.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
[UNAUDITED]

As at July 31 with comparatives at October 31

2008

2007

(\$ millions)

ASSETS		
Current assets		
Cash and cash equivalents	\$ 130	\$ 222
Short-term investments	-	102
Accounts receivable, net	268	287
Notes receivable	83	-
Unbilled revenue	103	99
Inventories, net	101	128
Income taxes recoverable	56	54
Current portion of deferred tax assets	46	45
Prepaid expenses and other	46	35
Assets held for sale	6	1
Total current assets	839	973
Property, plant and equipment, net	347	386
Deferred tax assets	28	4
Long-term investments and other	172	290
Goodwill	805	782
Intangible assets, net	501	583
Total assets	\$ 2,692	\$ 3,018
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness	\$ 15	\$ -
Accounts payable and accrued liabilities	282	384
Current portion of deferred revenue	78	71
Income taxes payable	16	57
Current portion of long-term debt	20	94
Current portion of deferred tax liabilities	22	10
Total current liabilities	433	616
Long-term debt	279	290
Deferred revenue	14	17
Other long-term obligations	33	30
Deferred tax liabilities	136	168
Total liabilities	895	1,121
Shareholders' equity		
Common shares, at par – Authorized shares: unlimited; Issued and outstanding shares: 121,093,730 and 122,578,331 for July 31, 2008 and October 31, 2007, respectively.	491	493
Additional paid-in capital	76	72
Retained earnings	840	842
Accumulated other comprehensive income	390	490
Total shareholders' equity	1,797	1,897
Total liabilities and shareholders' equity	\$ 2,692	\$ 3,018

Incorporated Under The Canada Business Corporations Act

See accompanying notes.

CONSOLIDATED STATEMENTS OF OPERATIONS
[UNAUDITED]

(\$ millions)	Three months ended July 31		Nine months ended July 31	
	2008	2007 Restated (Note 2)	2008	2007 Restated (Note 2)
Revenues				
Products	\$ 155	\$ 170	\$ 475	\$ 404
Services	143	138	445	408
Reimbursement revenues	23	25	73	71
Total revenues	321	333	993	883
Costs and expenses				
Direct cost of products	(95)	(109)	(296)	(263)
Direct cost of services	(98)	(83)	(291)	(255)
Reimbursed expenses	(23)	(25)	(73)	(71)
Selling, general and administration	(63)	(66)	(202)	(181)
Research and development	(19)	(20)	(61)	(48)
Depreciation and amortization	(25)	(24)	(75)	(56)
Asset impairment	(11)	-	(11)	-
Restructuring charges - net	(10)	(3)	(11)	(41)
Other income (expenses) - net	1	(7)	7	(77)
Total costs and expenses	(343)	(337)	(1,013)	(992)
Operating loss from continuing operations	(22)	(4)	(20)	(109)
Interest expense	(5)	(6)	(17)	(20)
Interest income	3	4	13	18
Mark-to-market on interest rate swaps	-	(1)	2	-
Equity earnings	14	15	38	40
Income (loss) from continuing operations before income taxes	(10)	8	16	(71)
Income tax (expense) recovery				
- current	1	5	(24)	34
- deferred	(1)	(6)	26	(11)
Income (loss) from continuing operations	(10)	7	18	(48)
Income from discontinued operations – net of income tax	-	-	-	808
Net income (loss)	\$ (10)	\$ 7	\$ 18	\$ 760
Basic earnings (loss) per share				
- from continuing operations	\$ (0.08)	\$ 0.06	\$ 0.15	\$ (0.36)
- from discontinued operations	-	(0.01)	-	5.99
Basic earnings (loss) per share	\$ (0.08)	\$ 0.05	\$ 0.15	\$ 5.63
Diluted earnings (loss) per share				
- from continuing operations	\$ (0.08)	\$ 0.06	\$ 0.15	\$ (0.36)
- from discontinued operations	-	(0.01)	-	5.99
Diluted earnings (loss) per share	\$ (0.08)	\$ 0.05	\$ 0.15	\$ 5.63

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
[UNAUDITED]

(\$ millions)	Three months ended July 31		Nine months ended July 31	
	2008	2007 Restated (Note 2)	2008	2007 Restated (Note 2)
Net income (loss)	\$ (10)	\$ 7	\$ 18	\$ 760
Foreign currency translation	(16)	42	(91)	71
Unrealized loss on available-for-sale assets	(1)	-	-	(3)
Unrealized gain (loss) on derivatives designated as cash flow hedges, net of tax	(1)	-	(5)	5
Reclassification of realized losses	-	-	-	(2)
Repurchase and cancellation of Common shares	(2)	-	(4)	(33)
Other comprehensive income (loss)	\$ (20)	\$ 42	\$ (100)	\$ 38
Comprehensive income (loss)	\$ (30)	\$ 49	\$ (82)	\$ 798

CONSOLIDATED STATEMENTS OF CASH FLOWS
[UNAUDITED]

	Three months ended		Nine months ended July	
	2008	July 31 2007 Restated (Note 2)	2008	2007 Restated (Note 2)
(\$ millions)				
Operating activities				
Net income (loss)	\$ (10)	\$ 7	\$ 18	\$ 760
Less: Income from discontinued operations – net of tax	-	-	-	808
Income (loss) from continuing operations	(10)	7	18	(48)
Adjustments to reconcile net income to cash provided (used in) operating activities relating to continuing operations:				
Items not affecting current cash flow	35	35	64	195
Changes in non-cash operating assets and liabilities balances relating to operations	(2)	(42)	(130)	(41)
Cash provided by (used in) operating activities of continuing operations	23	-	(48)	106
Cash provided by (used in) operating activities of discontinued operations	-	1	-	(52)
	23	1	(48)	54
Investing activities				
Acquisitions	(16)	2	(18)	(601)
Purchase of property, plant and equipment	(14)	(27)	(42)	(43)
Proceeds on sale of property, plant and equipment	-	-	3	-
Proceeds on sale of short-term investments	-	14	101	165
Purchases of short-term investments	-	(81)	-	(118)
Proceeds on sale of long-term investment	1	-	8	13
Proceeds on sale of product line	15	-	15	-
Decrease (increase) in restricted cash	1	-	(2)	(3)
Other	-	(2)	-	(2)
Cash provided by (used in) investing activities of continuing operations	(13)	(94)	65	(589)
Cash provided by investing activities of discontinued operations	-	-	-	929
	(13)	(94)	65	340
Financing activities				
Increase in Bank Indebtedness	15	-	15	-
Repayment of long-term debt	-	(1)	(81)	(8)
Decrease in deferred revenue and other long-term obligations	-	1	-	1
Payment of cash dividends	-	-	-	(3)
Issuance of shares	1	5	6	15
Repurchase of shares	(15)	-	(32)	(441)
Cash provided by (used in) financing activities of continuing operations	1	5	(92)	(436)
Cash used in financing activities of discontinued operations	-	-	-	(2)
	1	5	(92)	(438)
Effect of foreign exchange rate changes	(6)	11	(17)	15
Net increase (decrease) in cash and cash equivalents during the period	5	(77)	(92)	(29)
Cash and cash equivalents, beginning of period	125	287	222	239
Cash and cash equivalents, end of period	\$ 130	\$ 210	\$ 130	\$ 210

See accompanying notes

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by the Company in United States (US) dollars and in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial reporting, which do not conform in all respects to the requirements of U.S. GAAP for annual financial statements. Accordingly, these condensed notes to the unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto prepared in accordance with U.S. GAAP that are contained in the Company's amended Annual Report for the fiscal year ended October 31, 2007, filed on January 29, 2008 with the U.S. Securities and Exchange Commission, the Ontario Securities Commission, and other securities regulatory authorities in Canada. These interim consolidated financial statements have been prepared using accounting policies that are consistent with the policies used in preparing the Company's audited consolidated financial statements for the year ended October 31, 2007. There have been no material changes to the Company's significant accounting policies since October 31, 2007, except as described below under "Recently Adopted Accounting Pronouncements". These policies are consistent with accounting principles generally accepted in Canada (Canadian GAAP) in all material respects except as described in Note 22.

Comparative Figures

Certain figures for the previous year have been reclassified to conform to the current period financial statement presentation.

Use of Estimates

In preparing the Company's consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates and the operating results for the interim periods presented are not necessarily indicative of the results expected for the full year.

On an ongoing basis, management reviews its estimates to ensure that these estimates appropriately reflect changes in the Company's business and new information as it becomes available. If historical experience and other factors used by management to make these estimates do not reasonably reflect future activity, the Company's results of operations and financial position could be materially impacted.

2. Changes Affecting Fiscal 2008 Consolidated Financial Statements

a. Restatement of 2007 Interim Financial Statements

During the preparation of the 2007 annual financial statements, an error was identified in the U.S. GAAP reconciliation provided as part of the fiscal 2007 interim financial statements with respect to certain stock-based incentive compensation plans for which an incorrect valuation methodology was utilized. The Company has corrected this error by restating selling, general and administration expenses for the three months ended July 31, 2007 with a reduction of \$2 million in the accompanying quarterly consolidated financial statements and reducing the value of accrued liabilities by a similar amount. The Canadian GAAP financial statements previously reported were not impacted by the change, except for the reconciliation to U.S. GAAP (see Note 22).

b. Recently Adopted Accounting Pronouncements

On November 1, 2007, the Company adopted the provisions of the U.S. Financial Accounting Standards Board (FASB) interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109". FIN 48 clarifies accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold of more likely than not to be sustained upon audit examination. As a result of the implementation, an adjustment to the liability for unrecognized tax benefits was not required; accordingly, no adjustment was made to opening retained earnings at November 1, 2007.

At May 1, 2008, the total amount of unrecognized tax benefits, including interest and penalties, was \$29 million. Of these unrecognized tax benefits, \$22 million, if recognized, would favourably affect the effective income tax rate in the future. The amount of unrecognized tax benefits at July 31, 2008, including interest and penalties, is \$31 million.

The Company accrues interest and penalties relating to unrecognized tax benefits in its provision for income taxes. As of May 1, 2008, the balance of accrued interest and penalties was \$6 million. During the third quarter of 2008 there was an increase to the liability for interest and penalties by approximately \$1 million.

MDS is subject to taxation in Canada and the US, its principal jurisdictions, and in numerous other countries around the world. With few exceptions, MDS is no longer subject to examination by Canadian tax authorities for tax years before 2002, while most tax returns for 2002 and beyond remain open for examination. Tax returns filed in the U.S. generally are not subject to examination for years before 2003, while 2003 and subsequent U.S. tax filings generally remain open for audit by tax authorities. In certain circumstances, selective returns in earlier years are also open for examination.

3. Recent U.S. Accounting Pronouncements

a. In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements". SFAS 157 provides guidance for using fair value to measure assets and liabilities. It also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and does not expand the use of fair value in any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and is required to be adopted by the Company on November 1, 2008. The Company does not expect the adoption of SFAS 157 to have a material impact on its consolidated results of operations and financial condition.

b. In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115" (SFAS 159). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge

accounting provisions. The Company is required to adopt the provisions of SFAS 159 on November 1, 2008 and is currently evaluating the effects of the adoption of SFAS 159. The adoption, however, is not expected to have a material impact on the consolidated results of operations and financial condition.

c. In December 2007, the FASB issued SFAS No. 141R, "Business Combinations", a substantial amendment to SFAS 141. The objective of this statement is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. To accomplish that, this statement establishes principles and requirements for how the acquirer: a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non controlling interest in the acquiree; b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Company is required to adopt the provisions of SFAS 141R effective for acquisitions after October 31, 2009. The Company is currently evaluating the effects that the adoption of SFAS 141R will have on its consolidated results of operations and financial condition and is not yet in a position to determine such effects.

d. In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51". SFAS 160 is effective for fiscal years beginning after December 15, 2008. The objective of this Statement is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements related to the noncontrolling interest held by others in entities that are consolidated by the reporting entity. The provisions of SFAS 160 are not expected to have a material impact on the Company's consolidated results of operations and financial condition.

e. In March 2008, the FASB issued SFAS no. 161, "Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement 133". SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. MDS plans to adopt the provisions of SFAS 161 in the first quarter ending January 31, 2009.

f. In April 2008, the FASB issued Financial Statement Position, "Determination of the Useful Life of Intangible Assets" (FSP 142-3). FSP 142-3 provides guidance with respect to estimating the useful lives of recognized intangible assets acquired on or after the effective date and requires additional disclosure related to the renewal or extension of the terms of recognized intangible assets. FSP 142-3 is effective for fiscal years and interim periods beginning after December 15, 2008. The adoption is not expected to have a material impact on the Company's consolidated results of operations and financial condition.

g. In May 2008, the FASB issued Financial Accounting Standard (SFAS) No. 162, "The Hierarchy of Generally Accepted Accounting Principles" (SFAS 162). Under SFAS 162, the U.S. GAAP hierarchy will now reside in the accounting literature established by the FASB. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements in conformity with U.S. GAAP. SFAS No 162 will not impact the Company's financial statements.

h. MDS has been monitoring the deliberations and progress being made by accounting standard setting bodies and securities regulators both in Canada and the United States with respect to their plans regarding convergence to International Financial Reporting Standards (IFRS). The Accounting Standards Board in Canada and the Canadian Securities Administrators (CSA) have recently confirmed that

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

[All tabular amounts in millions of U.S. dollars, except where noted]

domestic issuers will be required to transition to IFRS for fiscal years beginning on or after January 1, 2011. The CSA Staff proposed retaining the existing option for a domestic issuer that is also a Securities and Exchange Commission (SEC) registrant to use U.S. GAAP.

Separately, the SEC in late 2007 also eliminated the requirement of reconciling financial statements to U.S. GAAP for foreign private issuers that file under IFRS effective November 15, 2007. On August 27, 2008, the SEC issued a proposal which would require registrants to issue their financial statement under IFRS beginning in 2014, 2015 or 2016 depending on the size of the issuer. MDS has not made an assessment of the impact of a conversion to IFRS.

MDS adopted U.S. GAAP as the primary reporting standard for the Company's consolidated financial statements in fiscal 2007. MDS commenced reporting under U.S. GAAP to improve the comparability of the financial information with that of its competitors, the majority of whom are US-based multinational companies that report under U.S. GAAP.

4. Acquisitions

a. Acquisition of Blueshift Biotechnologies Inc.

In June 2008, MDS acquired 100% of the stock of a small biomedical company focused on the development of screening platforms for life sciences research. The purchase price totalled \$13 million of which \$1.5 million has been placed in escrow. This escrow amount less claims for indemnifications will be released to the vendors on June 26, 2009. An additional amount of \$0.5 million has been placed in escrow which is contingent on the achievement of certain milestones.

The acquisition has been accounted for as a purchase in accordance with SFAS No. 141 and the Company has allocated the purchase price of the acquired assets and liabilities assumed. The purchase price and related allocations have not been finalized and may be revised as a result of adjustments made to the purchase price as additional information becomes available. In connection with determining the fair value of the assets acquired and liabilities assumed, management performed assessments of assets and liabilities using customary valuation procedures and techniques.

The cost of the acquisition has been allocated as follows:

(\$ millions)	
Intangible assets, primarily acquired technology	\$ 8
Goodwill	5
Total purchase price	\$ 13

b. Other Acquisition

In December 2007, MDS acquired 100% of the stock of a small company that is in the process of developing a complimentary product to our MDS Analytical Technologies product portfolio. Consideration for the transaction was \$2 million net of cash acquired, plus an additional \$2 million in cash payments expected in 2008 which were placed in escrow according to the agreement. The additional \$2 million payment was included in prepaid expenses in the second quarter of 2008, and was contingent on the retention of certain key employees and the completed validation of the functionality and technical specification of prototypes of the product acquired. The contingency related to the prototypes was fulfilled in the third quarter, and the amount of the notional payment was added to the purchase price and allocated to goodwill.

The purchase price and related allocations have been finalized. In connection with the fair valuing of the assets acquired and liabilities assumed, MDS performed assessments of intangible assets using customary valuation procedures and techniques. A value of \$1 million was assigned to in-process research and development which has been expensed accordingly.

5. Discontinued Operations and Assets Held for Sale

a. During the quarter ended July 31, 2008, the Company adopted a plan to dispose of an office building in Phoenix, Arizona which is part of the MDS Pharma Services segment for which assets will no longer be required due to the move to another facility. The Company expects that the final sale and disposal of the asset will be completed by mid-2009. In connection with the plan of disposal, the Company determined that the \$6 million carrying value of the underlying asset does not exceed its fair value and there will be no impairment loss recorded. The asset is separately presented on the balance sheet in the caption "Assets held for sale" and this asset is no longer depreciated.

b. In November 2007, the Company signed an agreement to sell its external beam therapy and self-contained irradiator product lines. The sale closed on May 1, 2008 and the final purchase price adjustments, all immaterial, have been made. Under the terms of this agreement, Best Medical International Inc., (Best Medical) a provider of radiotherapy and oncology products, purchased MDS Nordion's external beam therapy and self-contained irradiator product lines for \$15 million in cash. Best Medical acquired these two product lines, which have combined annualized revenues of approximately \$32 million and approximately 150 employees. Once the Company made the decision to dispose of the product lines, the Company followed the guidance of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets" and recorded a loss on sale of this business in the amount of \$4 million in the first quarter of 2008. Related to the disposal, \$1 million of the loss was allocated to the impairment of goodwill. In accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits", a pension curtailment gain of approximately \$1 million was recorded in the second quarter of 2008 as a result of the transfer of employees to Best Medical.

c. In October 2006, the Company signed an agreement to sell its Canadian laboratory services business, MDS Diagnostic Services, in a CAD\$1.325 billion transaction. The sale of MDS Diagnostic Services closed in February 2007. This strategic sale was designed to shift the Company's business focus to the global life sciences market. The results of discontinued MDS Diagnostic Services were as follows:

	Nine months ended July 31
(\$ millions, except for earnings per share)	2007
Net revenues	\$ 95
Cost of revenues	(57)
Selling, general and administration	(15)
Operating income	23
Gain on sale of discontinued operations	904
Interest income	1
Income taxes	(117)
Minority interest	(4)
Equity earnings	1
Income from discontinued operations	\$ 808
Basic earnings per share from discontinued operations	\$ 5.99

6. Inventories

(\$ millions)	As at July 31 2008	As at October 31 2007
Raw materials and supplies	\$ 71	\$ 83
Work-in process	17	34
Finished goods	23	26
	111	143
Allowance for excess and obsolete inventory	(10)	(15)
Inventories – net	\$ 101	\$ 128

7. Long-Term Investments and Other

(\$ millions)	As at July 31, 2008	As at October 31, 2007
Financial instrument pledged as security on long-term debt (note a)	\$ 43	\$ 46
Long-term notes receivable (note b)	36	125
Equity investments (note c)	5	10
Equity investments in joint ventures (note c)	24	38
Available for sale investments (note d)	16	24
Deferred pension assets	41	39
Other long-term investments (note e)	7	4
Venture capital investments	-	4
Long-term investments and other	\$ 172	\$ 290

a. Financial Instrument Pledged as Security on Long-term Debt

The financial instrument pledged as security on long-term debt, which is classified as held to maturity, and the long-term notes receivable, have fair values that approximate their carrying value. Other long-term investments, excluding those classified as available for sale, are recorded at cost.

b. Long-term Notes Receivable

In 2006, as a result of a comprehensive mediation process that resulted in an exchange of assets between the Company and Atomic Energy of Canada Limited related to the MAPLE reactor project, a long-term note receivable for \$38 million after discounting was received by the Company. This non-interest bearing note receivable is repayable over four years commencing in 2008. The note receivable is net of an unamortized discount based on an imputed interest rate of 4.5%. The value as at July 31, 2008 is \$47 million, of which \$11 million is included in notes receivable. The note receivable will be accreted up to its face amount of CAD\$53 million over a period of four years. Please refer to note 8 for information regarding the MAPLE Reactor Project.

A \$73 million Canadian denominated note receivable relating to the sale of the diagnostics business referred to in Note 5 was reclassified from long-term investments and other to note receivable as it is due on March 31, 2009.

c. Equity Investments

(\$ millions)	As at July 31		As at October 31
	2008		2007
Lumira Capital Corp	\$	5	\$ 10
MDS AT joint ventures		24	38
Equity investments	\$	29	\$ 48

The Company accounts for its investments in significantly influenced companies and joint ventures using the equity method of accounting. The Company owns 45.7% of the outstanding share capital of Lumira Capital Corp (“Lumira” – formerly MDS Capital Corp.) Lumira is an investment fund management company that also has long-term investments in development-stage enterprises that have not yet earned significant revenues from their intended business activities or established their commercial viability. The recovery of invested amounts and the realization of investment returns is dependent upon the successful resolution of scientific, regulatory, competitive, political and other risk factors, as well as the eventual commercial success of these enterprises. These investments are subject to measurement uncertainty, and adverse developments could result in further write-downs of the carrying values. In 2007, the Company wrote down this investment to its estimated fair value and recorded a provision of \$6 million in other expenses. In February 2008, the Company received \$4 million in cash from Lumira as a distribution and reduction in stated capital. The Company reduced its investment in Lumira accordingly.

d. Available for Sale Investments

Included with available for sale investments is an investment in non-bank sponsored asset backed commercial paper (ABCP) issued by two trusts with an original cost of \$17 million. These investments matured in September 2007 but as a result of liquidity issues in the ABCP market, they did not settle at maturity. In September 2007, a Pan-Canadian Investors Committee for Third Party Asset Backed Commercial Paper (the Committee) was formed to propose a solution to the liquidity problem in the ABCP market.

While no adjustment was recorded in the first quarter of 2008, an impairment loss of \$2 million was recognized in the fourth quarter of fiscal 2007. In March 2008, the Committee filed with the Ontario Superior Court of Justice a restructuring arrangement. The holders of ABCP voted in favour of the Committee’s restructuring plan. The Company has estimated the fair value of its investments in ABCP using all currently available information and assumptions that market participants would use in pricing such investments. The Company reviewed information provided by the Committee, JP Morgan, DBRS, current investment ratings, valuation estimates of the underlying assets and general economic conditions. Accordingly, the Company used a scenario-based probability-weighted discounted cash flow approach to value its investment at April 30, 2008 and recognized an impairment loss of \$3 million in the second quarter of 2008 representing a 20% reduction of the face value of the investments and for a total write-down of \$5 million representing a 30% reduction in the fair value of the investment. A change in the estimate of the composition of the underlying assets may affect the face value of the investments in the future. During the third quarter of 2008, market conditions surrounding liquidity of ABCP continued to experience some volatility, however, no additional adjustment was deemed necessary. The assumptions used in estimating fair value of ABCP are subject to change, which may result in further adjustments.

e. Other Long-term Investments

The Company holds 6,480,282 Common shares in Entelos Inc. (Entelos), a U.S. based company listed on the London Stock Exchange. The Entelos shares were received by the Company as part of an exchange under a merger agreement dated August 29, 2007 between Entelos and Iconix Bioscience Inc. (Iconix). As at July 31, 2008, the Entelos shares have a market value of \$2 million.

In addition, under the terms of the merger agreement between Entelos and Iconix, the Company may earn further common shares of Entelos as defined in the agreement and based upon specified earnings over the twelve months ended August 31, 2008. As at July 31, 2008, the Company's estimate of the fair value of the earn-out is \$4 million and is included in "prepaid expenses and other" (October 31, 2007 - \$4 million). The fair value of the earn-out is subject to measurement uncertainty. The recognized amount of the earn-out is based on the Company's best information and judgment in which the Company is expecting to finalize the value of the earn out in the fourth quarter of 2008 noting that actual results could differ from the original recorded value of \$4 million.

8. MAPLE Reactor

In 1996, MDS entered into an agreement with Atomic Energy of Canada, Limited (AECL), a Crown corporation for the design, development and construction of two nuclear reactors and a processing facility, known as the MAPLE project. The project was intended to replace AECL's current National Research Universal reactor (NRU) which produces approximately 50% of the world's medical isotopes. AECL agreed to provide interim supply of medical isotopes from NRU until the MAPLE project was operational. The MAPLE project was to be completed by the year 2000 at a planned cost to MDS of \$145 million.

By 2005, the project was not yet completed and costs had more than doubled, with MDS's investment exceeding \$350 million. To address these issues, MDS entered mediation with AECL that resulted in a new agreement between AECL and MDS on February 22, 2006 providing for both interim and long-term supply of medical isotopes. Under the interim and long-term supply agreement (ILTSA), AECL paid the Company \$22 million, assumed ownership of the MAPLE facilities and took responsibility for all costs associated with completing the project and the future production of medical isotopes from the MAPLE facilities. The parties retained certain rights related to existing claims. In addition, AECL acquired \$47 million of MAPLE-related inventories in exchange for a non-interest bearing note having a net present value of \$38 million, to be repaid over four years commencing in 2008. The agreement requires AECL to supply medical isotopes to MDS Nordion over a 40-year period, upon the MAPLE facilities meeting certain operational criteria, in exchange for a fixed percentage of the selling price. In accordance with SFAS No. 153, "Exchanges of Non-monetary Assets", the Company exchanged the MAPLE asset for the 40-year supply agreement which was recorded as an intangible asset at its fair value of \$308 million. This amount is to be amortized on a straight-line basis over a 40-year period once commercial production of MAPLE isotopes begins. The Company recorded a loss on this transaction of \$36 million in 2006.

On May 16, 2008, AECL and the Government of Canada, announced their intention to discontinue the development work on the MAPLE reactors located at Chalk River laboratories, effective immediately. The MAPLE reactors were to replace the NRU reactor and provide MDS Nordion with a long-term source of supply of medical isotopes under the ILTSA. MDS has substantial financial interests in the success of the MAPLE project, primarily through the 40-year supply commitment from AECL, as part of the exchange of non-monetary assets contained in the ILTSA.

The Company was neither consulted nor informed in advance by AECL or the Canadian government about their decision. Prior to their May 16, 2008 announcement, AECL had consistently maintained in regular project review meetings with the Company that it would complete the MAPLE project. AECL's announcement and position represents a different perspective on AECL's obligations than that held by MDS. On July 9, 2008, MDS served AECL with notice of arbitration proceedings. MDS will be seeking an order to compel AECL to fulfill its obligations under the ILTSA and if not granted, will seek significant monetary damages. MDS has concurrently filed a court claim for \$1.6 billion in damages against AECL, for negligence and breach of contract, and against the Government of Canada, for inducing breach of contract and for interference with economic relations.

AECL and the Government of Canada also announced that its decision will not impact the current supply of medical isotopes and that AECL will continue to supply medical isotopes, using the NRU reactor and will pursue an extension of the NRU operation beyond its current expiry date of October 31, 2011. While MDS supports this decision, it does not adequately address long-term supply.

MDS is reviewing the impact on its business from an operational and financial reporting perspective. The principal U.S. GAAP reporting exposure for MDS related to the announcement is its intangible asset associated with the 40-year supply agreement currently carried at \$336 million (valued at the July 31, 2008 exchange rate). MDS will continue to evaluate the intangible asset for possible impairment and the relevant financial reporting implications based upon the progress of any dialogue, negotiations or legal proceedings between AECL, the Government of Canada and the Company. It is the Company's position that AECL has breached its contract with MDS, and the Company will continue to monitor the proceedings and potential outcome which, at this time, we deem to be uncertain.

9. Bank Indebtedness

The Company has a CAD\$500 million operating line facility. As at July 31, 2008, the Company had drawn CAD\$15 million on this facility. The amount was subsequently repaid in August 2008.

10. Restructuring Charges

An analysis of the activity in the provision through July 31, 2008 is as follows:

(\$ millions)	Restructuring Charge	Cumulative drawdowns		Provision Balance at July 31, 2008
		Cash	Non-cash	
2007:				
Workforce reductions	\$ 17	\$ (14)	\$ (2)	\$ 1
Equipment and other asset write-downs	2	(1)	2	3
Contract cancellation charges	5	(6)	1	-
Other	14	(11)	(3)	-
	\$ 38	\$ (32)	\$ (2)	\$ 4
2008:				
Workforce reductions	9	(2)	-	7
Contract cancellation charges	1	-	-	1
	\$ 10	\$ (2)	\$ -	\$ 8

A restructuring charge of \$10 million was recorded in the third quarter of 2008 related primarily to the MDS Pharma Services (\$8 million) and MDS Analytical Technologies (\$2 million) segments. Cash utilization of \$2 million was recorded with respect to this restructuring in the third quarter. The majority of the 2008 restructuring activities are expected to be completed by the end of 2008.

Cash utilization of \$1 million was recorded with respect to the 2007 restructuring activities in the third quarter of 2008. The remaining balance primarily relates to the MDS Pharma Services segment. The 2007 restructuring activities are expected to be completed by the end of 2009.

11. Asset Impairment

In accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long Lived Assets" (SFAS 144), during the third quarter of 2008, the Company recorded an asset impairment charge of \$11 million to reduce the net book value of certain long-lived assets to their estimated fair value. The impairment charge relates to a building at its bio-analytical laboratory facilities in Montreal which will no longer be utilized.

12. Other Income (Expenses)

(\$ millions)	Three months ended July 31		Nine months ended July 31	
	2008	2007	2008	2007
Write-down of investments/valuation provisions	-	-	(3)	(6)
(Loss) gain on sale of investment	(1)	-	1	2
Gain (loss) on sale of business	-	-	(4)	1
Curtailed gain on pension	-	-	1	(2)
Acquisition integration costs	-	(1)	(1)	-
FDA reversal (provision)	-	-	10	(61)
Foreign exchange gain (loss)	2	(4)	5	(5)
Loss on embedded derivatives	-	-	(1)	-
Other	-	(2)	(1)	(6)
Other income (expense) – net	\$ 1	\$ (7)	\$ 7	\$ (77)

During the second quarter of 2008, a write-down of \$3 million was taken for ABCP. The Company did not record additional impairment of its investment in asset-backed commercial paper ABCP in the third quarter of fiscal 2008 (see note 7d).

During fiscal 2007, the Company recorded a provision of \$61 million to reimburse clients who have incurred or will incur third-party audit costs or study re-run costs to complete the work required by the FDA or other regulators. The Company has utilized approximately \$19 million of this reserve to date, an amount partially offset by the impact of foreign currency fluctuations on the liability. While the Company believes it has substantially completed the majority of all required site audits, we still await final reimbursement requests for many of these audits. Based on information currently available, the Company believes that a reserve of approximately \$32 million is required to cover study audits, re-runs and other related costs. Approximately \$10 million was reversed in the second quarter of fiscal 2008 with no further adjustment made in the third quarter of 2008. Management will continue to closely monitor the FDA matter and related provision.

13. Earnings Per Share

a. Dilution

(number of shares in millions)	Three months ended July 31		Nine months ended July 31	
	2008	2007	2008	2007
Weighted average number of Common shares outstanding – basic	122	123	122	135
Impact of stock options assumed exercised	-	-	-	-
Weighted average number of Common shares outstanding – diluted	122	123	122	135

b. Pro-Forma Impact of Stock-Based Compensation

Companies are required to calculate and disclose, in the notes to the consolidated financial statements, compensation expense related to the grant-date fair value of stock options for all grants of options for which no expense has been recorded in the consolidated statements of operations. For the Company, this includes those stock options issued prior to November 1, 2003.

For purposes of these pro-forma disclosures, the Company's net income and basic and diluted earnings per share would have been:

(\$ millions, except earnings per share)	Three months ended July 31		Nine months ended July 31	
	2008	2007	2008	2007
Net income	\$ (10)	\$ 7	\$ 18	\$ 760
Compensation expense for options granted prior to November 1, 2003	-	-	-	(1)
Net income – pro-forma	\$ (10)	\$ 7	\$ 18	\$ 759
Pro-forma basic earnings per share	\$ (0.08)	\$ 0.06	\$ 0.15	\$ 5.63
Pro-forma diluted earnings per share	\$ (0.08)	\$ 0.06	\$ 0.15	\$ 5.62

14. Share Capital

At July 31, 2008, the authorized share capital of the Company consists of unlimited Common shares. The Common shares are voting and are entitled to dividends if, as and when declared by the Board of Directors.

The following table summarizes information on share capital and stock options and related matters as at July 31, 2008:

(number of shares in thousands)	Number	Amount
Common shares		
Balance as at October 31, 2007	122,578	\$ 493
Issued during the period	401	6
Repurchased during the period	(1,885)	(8)
Balance as at July 31, 2008	121,094	\$ 491

During the third quarter of 2008, the Company repurchased 1,013,200 Common shares under a normal course issuer bid for a cost of \$15 million. Of the total cost, \$4 million was charged to share capital, \$2 million was charged to other comprehensive income and \$9 million was charged to retained earnings. For the nine months ended July 31, 2008 1,885,300 Common shares were purchased under a normal course issuer bid for a cost of \$32 million, with \$8 million charged to share capital, \$4 million charged to comprehensive income and \$20 million charged to retained earnings. Under the terms of its existing normal course issuer bid, the Company is entitled to purchase up to 4,136,766 Common shares between July 3, 2008 and July 2, 2009, of which 400,000 Common shares have been purchased to date.

15. Stock-based Compensation

CAD\$ options (number of stock options in thousands)	Number	Average Exercise Price
Stock options		
Balance as at October 31, 2007	5,555	\$ 19.66
Activity during the period:		
Granted	39	20.29
Exercised	(401)	16.17
Cancelled or forfeited	(569)	20.75
Balance as at July 31, 2008	4,624	\$ 19.84

US\$ options (number of stock options in thousands)	Number	Average Exercise Price
Stock options		
Balance as at October 31, 2007	-	\$ -
Activity during the period:		
Granted	1,149	15.92
Exercised	-	-
Cancelled or forfeited	-	-
Balance as at July 31, 2008	1,149	\$ 15.92

During the third quarter of 2008, the Company granted nil CAD\$ options and 1,137,000 US\$ options (2007 – 883,600 and nil) at an average exercise price of CAD\$ nil and US\$15.90, respectively (2007 – CAD\$21.77 and US\$ nil). Options outstanding have a fair value determined using the Black-Scholes model of CAD\$4.51 and US\$4.14 per share respectively (2007 – CAD\$4.44 and US\$ nil) based on the following:

CAD\$ options	2008	2007
Risk-free interest rate	3.3%	3.9%
Expected dividend yield	0.0%	0.0%
Expected volatility	21%	21%
Expected time to exercise (years)	4.40	3.17

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

[All tabular amounts in millions of U.S. dollars, except where noted]

US\$ options	2008	2007
Risk-free interest rate	3.6%	-
Expected dividend yield	0.0%	-
Expected volatility	23%	-
Expected time to exercise (years)	4.40	-

The stock compensation expense for the nine months ended July 31, 2008 was \$4 million (nine months ended July 31, 2007 - \$2 million), which has been recorded in selling, general and administration expenses and as additional paid in-capital within share capital.

Incentive Plans

The Company has been utilizing mid-term incentive plans (MTIP) since 2005. The 2006 MTIP will vest in two equal tranches, based on achieving specified share price hurdles of CAD\$22.00 and CAD\$26.00 respectively. The term of the Performance Share Units (PSUs) is three years and payout will occur at the later of 24 months from the date of grant and achievement of each share price hurdle. Payout on certain PSUs will be in the form of Deferred Share Units (DSUs) and the balance will be paid in cash. During 2006, the price hurdle was met and 50% of the issued units vested. A payment of \$3 million was made related to these vested units in the first quarter of 2008. A further payment of \$1 million was made in the third quarter of 2008 related to these vested units.

The 2007 MTIP will vest in two equal tranches, based on achieving specified share price hurdles of CAD\$25.30 and CAD\$27.50, respectively. The term of the PSUs is three years and payout will occur at the later of 24 months from the date of grant and achievement of each share price hurdle.

The 2008 MTIP will vest on December 15, 2010 and the number of PSUs granted will be determined based on achieving a target rate for 2010 cash earnings per share of between US\$1.17 and US\$1.31. The final number of vested units can range from 0% to 200% of the number of PSUs granted. Payout will occur not later than 60 days following the vesting date.

The Company records the cost of its MTIP compensation plans at fair value based on assumptions that are consistent with those used to determine the fair value of stock compensation. The table below shows the liability and expense related to the plans:

Liability	As at July 31, 2008		As at October 31, 2007	
2006 Plan	\$	2	\$	11
2007 Plan		-		3
2008 Plan		2		-
Total	\$	4	\$	14

Expense (Income)	Three months ended July 31		Nine months ended July 31	
	2008	2007	2008	2007
2006 Plan	\$ (1)	\$ 1	\$ (6)	\$ 2
2007 Plan	(2)	-	(3)	-
2008 Plan	-	-	2	-
Total	\$ (3)	\$ 1	\$ (7)	\$ 2

16. Accumulated Other Comprehensive Income

(\$ millions)	As at July 31, 2008	As at October 31, 2007
Accumulated other comprehensive income, net of income taxes, beginning of period	\$ 490	\$ 328
Foreign currency translation	(91)	183
Unrealized gain on available-for-sale assets, net of tax	-	(3)
Unrealized gain (loss) on derivatives designated as cash flow hedges, net of tax	(5)	8
Reclassification of realized gains, net of tax	-	(4)
Adoption of FAS 158	-	11
Repurchase and cancellation of Common shares	(4)	(33)
Accumulated other comprehensive income, net of income taxes, end of period	\$ 390	\$ 490

The foreign currency translation gain in 2007 was mainly a result of the effect of the strengthening Canadian dollar (approximately 19% for 2007) and the strengthening euro on assets and earnings. The foreign currency translation loss in 2008 is mainly a result of the effect of the weakening Canadian dollar (approximately 8% for the first three quarters of 2008) on Canadian denominated assets.

17. Employee Benefit Plans

The Company sponsors various post-employment benefit plans including defined benefit and contribution pension plans, retirement compensation arrangements, and plans that provide extended health care coverage to retired employees. All defined benefit pension plans sponsored by the Company are funded plans. Other post-employment benefits are unfunded. During 2005, the Company amended the terms of certain post-employment plans such that effective January 1, 2008, and subject to certain transitional conditions, newly retired employees will no longer be entitled to extended health care benefits.

Defined Benefit Pension Plans:

(\$ millions)	Three months ended July 31		Nine months ended July 31	
	2008	2007	2008	2007
Service cost	\$ 1	\$ 1	\$ 3	\$ 3
Interest cost	3	3	9	7
Expected return on plan assets	(4)	(4)	(12)	(10)
Recognition of actuarial gains	-	(1)	-	(2)
Curtailment gain	-	-	(1)	-
	\$ -	\$ (1)	\$ (1)	\$ (2)

Other Benefit Plans:

(\$ millions)	Three months ended July 31		Nine months ended July 31	
	2008	2007	2008	2007
Service cost	\$ -	\$ -	\$ -	\$ -
Interest cost	-	-	1	1
Expected return on plan assets	-	-	-	-
	\$ -	\$ -	\$ 1	\$ 1

MDS recorded a curtailment gain of approximately \$1 million in the second quarter of 2008 related to the transfer of staff from MDS to Best Medical International Inc. as a result of the sale of the external beam therapy and self-contained irradiator product lines, as per Note 5.

18. Income Taxes

The Company's effective tax rate for the third quarter of 2008 was nil. The tax recovery was increased by \$1 million of tax credits relating to research and development that were recognized during the third quarter. The impact of the sale of the Company's external beam therapy and self-contained irradiator product lines business resulted in a \$1 million increase to expected taxes during the third quarter. The impact of foreign losses that the Company could not recognize during the third quarter resulted in a \$4 million increase to expected taxes.

(\$ millions)	Three months ended		Nine months ended	
	2008	July 31 2007	2008	July 31 2007
Expected income tax expense (recovery) at MDS's 33% (2007 – 35%) statutory rate	\$ (3)	\$ 3	\$ 5	\$ (25)
Increase (decrease) to taxes as a result of:				
Tax credits for research and development	(1)	(1)	(4)	(7)
Sale of business	1	-	-	-
Foreign losses not recognized	4	1	5	9
Valuation provisions	-	-	1	2
Impact of rate changes on deferred tax balances	-	-	(11)	-
Other	(1)	(2)	2	(2)
Reported income tax expense (recovery)	\$ -	\$ 1	\$ (2)	\$ (23)

19. Supplementary Cash Flow Information

Non-cash items affecting net income comprise:

(\$ millions)	Three months ended July 31		Nine months ended July 31	
	2008	2007	2008	2007
Depreciation and amortization	\$ 25	\$ 24	\$ 75	\$ 56
Stock option compensation	1	1	4	2
Deferred revenue	-	(1)	-	(3)
Deferred income taxes	1	(1)	(26)	46
Equity earnings – net of distribution	-	(1)	10	8
Impairment of long-lived assets	11	-	11	-
Write-down of investments	-	-	3	6
Loss on disposal of equipment and other assets	1	1	5	5
Mark-to-market of derivatives	-	1	1	12
FDA (reversal) provision	-	10	(10)	61
Gain on sale of investment	-	-	-	2
Other	(4)	1	(9)	-
	\$ 35	\$ 35	\$ 64	\$ 195

Changes in non-cash operating assets and liabilities balances relating to operations include:

(\$ millions)	Three months ended July 31		Nine months ended July 31	
	2008	2007	2008	2007
Accounts receivable	\$ -	\$ (23)	\$ 20	\$ (15)
Unbilled revenue	8	1	(5)	12
Inventories	17	(3)	15	(10)
Prepaid expenses and others	(4)	(2)	(5)	9
Accounts payable and accrued liabilities	(17)	(20)	(109)	(33)
Income taxes	(12)	5	(58)	(4)
Deferred income	1	-	5	-
Other operating asset and liabilities	5	-	7	-
	\$ (2)	\$ (42)	\$ (130)	\$ (41)

20. Financial Instruments

The carrying amounts and fair values for all derivative financial instruments are as follows:

(\$ millions)	As at July 31 2008		As at October 31 2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Asset (liability) position:				
Currency forward and option - assets	\$ -	\$ -	\$ 7	\$ 7
Currency forward and option - liabilities	\$ (2)	\$ (2)	\$ (12)	\$ (12)
Interest rate swap and option contracts	\$ -	\$ -	\$ (1)	\$ (1)

As of July 31, 2008, the Company had outstanding foreign exchange contracts in place to sell \$65 million at a weighted average exchange rate of CAD\$1.105 maturing over the next 12 months.

In addition to the above derivatives, isotope supply agreements totalling \$121 million include terms that result in the creation of an embedded currency derivative under SFAS 133, "Accounting for Derivative Instruments and Hedging Activities". Under the rules contained in SFAS 133, we have determined the value of this derivative and marked it to market as at July 31, 2008. The supply contract is denominated in U.S. dollars and due to currency movements between the U.S. and Canadian dollar we have recorded an unrealized, mark-to-market loss of \$2 million on the contract year to date. There was no significant mark-to-market adjustment required for the third quarter of 2007.

The Company has other supply agreements containing embedded derivatives with a notional amount of \$36 million. Under SFAS 133, the unrealized mark-to-market gain for the nine months ended July 31, 2008 was \$1 million.

21. Segment Information

In accordance with SFAS No 131, "Disclosures About Segments of an Enterprise and Related Information", the Company operates within three business segments – pharmaceutical services, isotopes and analytical technologies. These segments are organized predominantly around the products and services provided to customers identified for the businesses.

(\$ millions)	Three months ended July 31, 2008					
	MDS Pharma Services	MDS Nordion	MDS Analytical Technologies	Corporate and Other	Total	
Product revenues	\$ -	\$ 72	\$ 83	\$ -	\$ 155	
Service revenues	122	-	21	-	143	
Reimbursement revenues	23	-	-	-	23	
Total revenues	145	72	104	-	321	
Direct product cost	-	(35)	(60)	-	(95)	
Direct service cost	(94)	(1)	(3)	-	(98)	
Reimbursed expenses	(23)	-	-	-	(23)	
Selling, general and administration	(31)	(12)	(18)	(2)	(63)	
Research and development	-	-	(19)	-	(19)	
Depreciation and amortization	(9)	(3)	(12)	(1)	(25)	
Asset impairment	(11)	-	-	-	(11)	
Restructuring charges - net	(8)	-	(2)	-	(10)	
Other income (expenses) - net	-	(1)	1	1	1	
Operating income (loss)	(31)	20	(9)	(2)	(22)	
Equity earnings	-	-	14	-	14	
Segment earnings (loss)	\$ (31)	\$ 20	\$ 5	\$ (2)	\$ (8)	
Total assets	\$ 767	\$ 690	\$ 876	\$ 353	\$ 2,686	
Capital expenditures	\$ 7	\$ 3	\$ 2	\$ 2	\$ 14	

Total assets exclude assets held for sale of \$6 million. A portion of the costs related to service revenue in MDS Analytical Technologies is included in selling, general and administration and research and development expenses.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 [All tabular amounts in millions of U.S. dollars, except where noted]

(\$ millions)

Three months ended July 31, 2007

	MDS Pharma		MDS Analytical		Corporate		Total
	Services	MDS Nordion	Technologies		and Other		
Product revenues	\$ -	\$ 76	\$ 94	\$ -	\$ -	\$ -	170
Service revenues	118	-	20	-	-	-	138
Reimbursement revenues	25	-	-	-	-	-	25
Total revenues	143	76	114	-	-	-	333
Direct product cost	-	(39)	(70)	-	-	-	(109)
Direct service cost	(82)	-	(1)	-	-	-	(83)
Reimbursed expenses	(25)	-	-	-	-	-	(25)
Selling, general and administration	(30)	(13)	(20)	(3)	-	-	(66)
Research and development	-	(1)	(19)	-	-	-	(20)
Depreciation and amortization	(8)	(4)	(12)	-	-	-	(24)
Restructuring charges - net	(1)	-	-	(2)	-	-	(3)
Other expenses - net	(2)	(1)	(3)	(1)	-	-	(7)
Operating income (loss)	(5)	18	(11)	(6)	-	-	(4)
Equity earnings	-	-	15	-	-	-	15
Segment earnings (loss)	\$ (5)	\$ 18	\$ 4	\$ (6)	\$ -	\$ -	11
Total assets	\$ 820	\$ 699	\$ 840	\$ 419	\$ -	\$ -	2,778
Capital expenditures	\$ 21	\$ 3	\$ 2	\$ 1	\$ -	\$ -	27

(\$ millions)

Nine months ended July 31, 2008

	MDS Pharma		MDS Analytical		Corporate		Total
	Services	MDS Nordion	Technologies		and Other		
Product revenues	\$ -	\$ 207	\$ 268	\$ -	\$ -	\$ -	475
Service revenues	370	5	70	-	-	-	445
Reimbursement revenues	73	-	-	-	-	-	73
Total revenues	443	212	338	-	-	-	993
Direct product cost	-	(111)	(185)	-	-	-	(296)
Direct service cost	(277)	(3)	(11)	-	-	-	(291)
Reimbursed expenses	(73)	-	-	-	-	-	(73)
Selling, general and administration	(93)	(36)	(59)	(14)	-	-	(202)
Research and development	-	(2)	(59)	-	-	-	(61)
Depreciation and amortization	(26)	(9)	(39)	(1)	-	-	(75)
Asset impairment	(11)	-	-	-	-	-	(11)
Restructuring charges - net	(9)	-	(2)	-	-	-	(11)
Other income (expenses) - net	14	(6)	(1)	-	-	-	7
Operating income (loss)	(32)	45	(18)	(15)	-	-	(20)
Equity earnings	-	-	38	-	-	-	38
Segment earnings (loss)	\$ (32)	\$ 45	\$ 20	\$ (15)	\$ -	\$ -	18
Total assets	\$ 767	\$ 690	\$ 876	\$ 353	\$ -	\$ -	2,686
Capital expenditures	\$ 22	\$ 9	\$ 5	\$ 6	\$ -	\$ -	42

Total assets exclude assets held for sale of \$6 million. A portion of the costs related to service revenue in MDS Analytical Technologies is included in selling, general and administration and research and development expenses.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 [All tabular amounts in millions of U.S. dollars, except where noted]

(\$ millions)

Nine months ended July 31, 2007

	MDS Pharma Services	MDS Nordion	MDS Analytical Technologies	Corporate and Other	Total
Product revenues	\$ -	\$ 210	\$ 194	\$ -	\$ 404
Service revenues	354	4	50	-	408
Reimbursement revenues	71	-	-	-	71
Total revenues	425	214	244	-	883
Direct product cost	-	(108)	(155)	-	(263)
Direct service cost	(251)	(2)	(2)	-	(255)
Reimbursed expenses	(71)	-	-	-	(71)
Selling, general and administration	(95)	(36)	(37)	(13)	(181)
Research and development	-	(3)	(45)	-	(48)
Depreciation and amortization	(26)	(10)	(19)	(1)	(56)
Restructuring charges - net	(32)	-	-	(9)	(41)
Other expenses - net	(68)	-	(5)	(4)	(77)
Operating income (loss)	(118)	55	(19)	(27)	(109)
Equity earnings	-	-	40	-	40
Segment earnings (loss)	\$ (118)	\$ 55	\$ 21	\$ (27)	\$ (69)
Total assets	\$ 820	\$ 699	\$ 840	\$ 419	\$ 2,778
Capital expenditures	\$ 28	\$ 5	\$ 6	\$ 4	\$ 43

22. Differences Between Canadian and U.S. Generally Accepted Accounting Principles

U.S. GAAP accounting principles used in the preparation of these consolidated financial statements conform in all material respects to Canadian GAAP, except as set out below.

- a. Accounting for equity interests in joint ventures – The Company owns 50% interests in two partnerships that are subject to joint control. Under U.S. GAAP, the Company records its share of earnings of these partnerships as equity earnings. Under Canadian GAAP, the Company proportionately consolidates these businesses. Under the proportionate consolidation method of accounting, MDS recognizes its share of the results of operations, cash flows, and financial position of the partnerships on a line-by-line basis in its consolidated financial statements and eliminates its share of all material intercompany transactions with the partnerships. While there is no impact on net income from continuing operations or earnings per share from continuing operations as a result of this difference, there are numerous presentation differences affecting the disclosures in these consolidated financial statements and in certain of the supporting notes.
- b. Research and development – The Company expenses research and development costs as incurred. Under Canadian GAAP, the Company is required to capitalize development costs provided certain conditions are met. Such capitalized costs are referred to as deferred development costs and they are amortized over the estimated useful life of the related products, generally periods ranging from three to five years.
- c. Investment tax credits – The Company records non-refundable investment tax credits as a reduction in current income tax expense in the year in which the tax credits are earned. The majority of non-refundable investment tax credits earned by MDS are related to research and development expenditures. Under Canadian GAAP, non-refundable investment tax credits are recorded as a reduction in the expense or the capital expenditure to which they relate.
- d. Embedded derivatives – Under SFAS 133, “Accounting for Derivative Instruments and Hedging Activities”, certain contractual terms are considered to behave in a similar fashion to a derivative contract and parties to the contracts are therefore required to separate the accounting for these embedded derivatives from the accounting for the host contract. Once separated, these embedded derivatives are subject to the general derivative accounting guidelines outlined in SFAS 133, particularly the requirement to mark these derivatives to market. For MDS, these terms typically relate to the currency in which the contract is denominated. Canadian GAAP is largely aligned with SFAS 133 for most embedded derivatives; however, Canadian GAAP provides exemptions for contracts that are written in a currency that is not the functional currency of one of the substantial parties to the contract but which is a currency in common usage in the economic environment of one of the contracting parties. The Company has elected to use this exemption available under Canadian GAAP in accounting for certain cobalt supply contracts entered into with a supplier located in Russia. The affected contracts are denominated in U.S. dollars.

- e. Currency forward and option contracts – The Company currently designates the majority of the forward foreign exchange contracts it enters into as hedges of future anticipated cash inflows. In prior years, these contracts did not qualify for treatment as hedges and, accordingly, such contracts were carried at fair value and changes in fair value were reflected in earnings. Under Canadian GAAP, all such contracts were eligible for hedge accounting, and as a result, gains and losses on these contracts were deferred and recognized in the period in which the cash flows to which they relate were incurred.
- f. Comprehensive income – U.S. GAAP requires that a statement of other comprehensive income and accumulated other comprehensive income be displayed with the same prominence as other financial statements. Under Canadian GAAP, statements of other comprehensive income and accumulated other comprehensive income were not required for years prior to the Company's 2007 fiscal year.
- g. Pensions – Under U.S. GAAP, the net funded status of pension plans sponsored by a company are fully reflected in the consolidated assets or liabilities of the Company. The amount by which plan assets exceed benefit obligations or benefit obligations exceed plan assets, on a plan-by-plan basis, is reflected as an increase in assets or liabilities, with a corresponding adjustment to accumulated other comprehensive income. Under Canadian GAAP, only the net actuarial asset or liability is reflected in the consolidated financial statements.
- h. Stock-based compensation – Under U.S. GAAP, certain equity-based incentive compensation plans are accounted for under the liability method using a fair value model to determine the amount of the liability at each period end. Under Canadian GAAP, these plans are accounted for under the liability method using intrinsic value to measure the liability at each period end.
- i. As per Note 3 (h): The Accounting Standards Board announced that Canadian Generally Accepted Accounting Principles for publicly accountable enterprises will be replaced with International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. While domestic issuers will be required to make the transition by 2011, the CSA in a Concept Paper provided a tentative conclusion allowing domestic issuers who are also SEC registrants, like MDS, to continue to report under U.S. GAAP for two years from the transaction date of 2011. Early conversion to IFRS for fiscal years beginning on or after January 1, 2009 may also be permitted.
- j. As mentioned in Note 2, in the fourth quarter of 2007 during the preparation of the 2007 annual financial statements under U.S. GAAP, an error was identified in the prior interim financial statements with respect to certain stock-based incentive compensation plans. The Company has corrected this error of \$2 million in these consolidated financial statements. The previous Canadian GAAP to U.S. GAAP reconciliation is therefore amended by the below restated reconciliation.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 [All tabular amounts in millions of U.S. dollars, except where noted]

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at July 31, 2008 (\$ millions)	2008 Canadian GAAP	Reconciling Adjustments	Reference	2008 U.S. GAAP
ASSETS				
Current assets				
Cash and cash equivalents	\$ 138	\$ (8)	a	\$ 130
Short-term investments	-	-		-
Accounts receivable, net	269	(1)	a	268
Notes receivable	83	-		83
Unbilled revenue	103	-		103
Inventories, net	104	(3)	a	101
Income taxes recoverable	56	-		56
Current portion of deferred tax assets	46	-		46
Prepaid expenses and other	42	4	d	46
Assets held for sale	6	-		6
Total current assets	\$ 847	\$ (8)		\$ 839
Property, plant and equipment, net	350	(3)	a	347
Deferred tax assets	28	-		28
Long-term investments and other	184	(12)	a,b,g	172
Goodwill	827	(22)	a	805
Intangible assets, net	516	(15)	a	501
Total assets	\$ 2,752	\$ (60)		\$ 2,692
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Bank indebtedness	\$ 15	\$ -		\$ 15
Accounts payable and accrued liabilities	290	(8)	a,e,h	282
Current portion of deferred revenue	78	-		78
Income taxes payable	17	(1)	a	16
Current portion of long-term debt	20	-		20
Current portion of deferred tax liabilities	22	-		22
Total current liabilities	\$ 442	\$ (9)		\$ 433
Long-term debt	279	-		279
Deferred revenue	14	-		14
Other long-term obligations	33	-		33
Deferred tax liabilities	149	(13)	f,h	136
Total liabilities	\$ 917	\$ (22)		\$ 895
Shareholders' equity				
Share capital	504	(13)	h	491
Additional paid in capital	-	76	h	76
Retained earnings	953	(113)	b,d,g,h	840
Accumulated other comprehensive income	378	12	a,f,g	390
Total shareholders' equity	\$ 1,835	\$ (38)		\$ 1,797
Total liabilities and shareholders' equity	\$ 2,752	\$ (60)		\$ 2,692

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 [All tabular amounts in millions of U.S. dollars, except where noted]

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at October 31 (\$ millions)	2007 Canadian GAAP	Reconciling Adjustments	Reference	2007 U.S. GAAP
ASSETS				
Current assets				
Cash and cash equivalents	\$ 259	\$ (37)	a	\$ 222
Short-term investments	91	11		102
Accounts receivable	284	3	a,d	287
Unbilled revenue	99	-		99
Inventories, net	134	(6)	a	128
Income taxes recoverable	54	-		54
Current portion of income taxes	45	-		45
Prepaid expenses and other	21	14		35
Assets held for sale	1	-		1
Total current assets	988	(15)		973
Property, plant and equipment, net	390	(4)	a	386
Deferred tax assets	4	-		4
Long-term investments and other	284	6	a,b,g	290
Goodwill	797	(15)		782
Intangible assets, net	601	(18)	a	583
Total assets	\$ 3,064	\$ (46)		\$ 3,018
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	\$ 391	\$ (7)	a,h	\$ 384
Current portion of deferred revenue	71	-		71
Income taxes payable	57	-		57
Current portion of long-term debt	94	-		94
Current portion of deferred tax liabilities	10	-		10
Total current liabilities	623	(7)		616
Long-term debt	290	-		290
Deferred revenue	16	1		17
Other long-term obligations	29	1		30
Deferred tax liabilities	182	(14)	f,h	168
Minority interest	1	(1)		-
Total liabilities	1,141	(20)		1,121
Shareholders' equity				
Share capital	502	(9)	h	493
Additional paid-in capital	n/a	72	h	72
Retained earnings	945	(103)	b,d,g,h	842
Accumulated other comprehensive income	476	14	a,f,g	490
Total shareholders' equity	1,923	(26)		1,897
Total liabilities and shareholders' equity	\$ 3,064	\$ (46)		\$ 3,018

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 [All tabular amounts in millions of U.S. dollars, except where noted]

CONSOLIDATED STATEMENTS OF OPERATIONS

Three months ended July 31, 2008

Nine months ended July 31, 2008

(\$millions, except per share amounts)	CDN GAAP	Recon. Items ¹	U.S. GAAP	CDN GAAP	Recon. Items ¹	U.S. GAAP	Reference
Revenues							
Products and services	\$ 308	\$ (10)	\$ 298	\$ 941	(21)	\$ 920	a
Reimbursement revenues	23	-	23	73	-	73	
Total revenues	331	(10)	321	1,014	(21)	993	
Costs and expenses							
Cost of revenues	(190)	(3)	(193)	(584)	(3)	(587)	
Reimbursed expenses	(23)	-	(23)	(73)	-	(73)	
Selling, general and administration	(60)	(3)	(63)	(191)	(11)	(202)	a,e,h
Research and development	(11)	(8)	(19)	(31)	(30)	(61)	a,b,c
Depreciation and amortization	(28)	3	(25)	(84)	9	(75)	a
Asset Impairment	(11)	-	(11)	(11)	-	(11)	
Restructuring charges - net	(10)	-	(10)	(11)	-	(11)	
Other expense - net	-	1	1	3	4	7	b,d
Total costs and expenses	(333)	(10)	(343)	(982)	(31)	(1,013)	
Operating income (loss)	(2)	(20)	(22)	32	(52)	(20)	
Interest expense	(6)	1	(5)	(17)	-	(17)	
Interest income	3	-	3	13	-	13	
Mark-to-market on interest rate swaps	-	-	-	-	2	2	
Equity earnings	-	14	14	-	38	38	a
Income (loss)	(5)	(5)	(10)	28	(12)	16	
Income tax (expense) recovery							
- current	-	1	1	(31)	7	(24)	
- deferred	1	(2)	(1)	27	(1)	26	
Net income	\$ (4)	\$ (6)	\$ (10)	\$ 24	\$ (6)	\$ 18	
Basic earnings (loss) per share							
- from continuing operations	\$ (0.03)	\$ (0.05)	\$ (0.08)	\$ 0.20	\$ (0.05)	\$ 0.15	
Basic earnings (loss) per share	\$ (0.03)	\$ (0.05)	\$ (0.08)	\$ 0.20	\$ (0.05)	\$ 0.15	
Diluted earnings (loss) per share							
- from continuing operations	\$ (0.03)	\$ (0.05)	\$ (0.08)	\$ 0.20	\$ (0.05)	\$ 0.15	
Diluted earnings (loss) per share	\$ (0.03)	\$ (0.05)	\$ (0.08)	\$ 0.20	\$ (0.05)	\$ 0.15	

¹ Reconciling items between Canadian GAAP and U.S. GAAP

CONSOLIDATED STATEMENTS OF OPERATIONS

(\$millions, except per share amounts)	Three months ended July 31, 2007			Nine months ended July 31, 2007		
	CDN GAAP	Recon. Items ¹	U.S. GAAP	CDN GAAP	Recon. Items ¹	U.S. GAAP
Revenues						
Products and services	\$ -	\$ -	\$ 308	\$ -	\$ -	\$ 812
Reimbursement revenues	-	-	25	-	-	71
Total revenues	321	12	333	844	39	883
Costs and expenses						
Cost of revenues	-	-	(192)	-	(2)	(518)
Reimbursed expenses	-	(25)	(25)	-	(71)	(71)
Selling, general and administration	(74)	8	(66)	(194)	13	(181)
Research and development	(9)	(11)	(20)	(21)	(27)	(48)
Depreciation and amortization	(28)	4	(24)	(65)	9	(56)
Restructuring charges - net	(3)	-	(3)	(44)	3	(41)
Other expense - net	(2)	(5)	(7)	(68)	(9)	(77)
Total costs and expenses	(308)	(29)	(337)	(908)	(84)	(992)
Operating income (loss) from continuing operations	13	(17)	(4)	(64)	(45)	(109)
Interest expense	(6)	-	(6)	(20)	-	(20)
Interest income	4	-	4	18	-	18
Mark-to-market on interest note swaps	-	(1)	(1)	-	-	-
Equity earnings	-	15	15	-	40	40
Income (loss) from continuing operations before income taxes	11	(3)	8	(66)	(5)	(71)
Income taxes (expense) recovery:						
- current	(3)	8	5	15	19	34
- deferred	-	(6)	(6)	-	(11)	(11)
Income (loss) from continuing operations	8	(1)	7	(51)	3	(48)
Income from discontinued operations - net of income tax	(1)	1	-	808	-	808
Net income	\$ 7	\$ -	\$ 7	\$ 757	\$ 3	\$ 760
Basic earnings (loss) per share:						
- from continuing operations	\$ 0.07	\$ (0.01)	\$ 0.06	\$ (0.37)	\$ 0.01	\$ (0.36)
- from discontinued operations	(0.01)	-	(0.01)	5.99	-	5.99
Basic earnings per share	\$ 0.06	\$ (0.01)	\$ 0.05	\$ 5.62	\$ 0.01	\$ 5.63
Diluted earnings (loss) per share:						
- from continuing operations	\$ 0.07	\$ (0.01)	\$ 0.06	\$ (0.38)	\$ 0.02	\$ (0.36)
- from discontinued operations	(0.01)	-	(0.01)	5.98	0.01	5.99
Diluted earnings per share	\$ 0.06	\$ (0.01)	\$ 0.05	\$ 5.60	\$ 0.03	\$ 5.63

¹ Reconciling items between Canadian GAAP and U.S. GAAP

CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ millions)	Three months ended July 31, 2008			Nine months ended July 31, 2008		
	CDN GAAP	Recon. Items ¹	U.S. GAAP	CDN GAAP	Recon. Items ¹	U.S. GAAP
Operating activities						
Net income	\$ (4)	\$ (6)	\$ (10)	\$ 24	\$ (6)	\$ 18
Adjustments to reconcile net income to cash provided (used in) operating activities relating to continuing operations						
Items not affecting current cash flow	32	3	35	41	23	64
Changes in non-cash working capital balances relating to operations	(4)	2	(2)	(136)	6	(130)
Cash provided by (used in) operating activities	24	(1)	23	(71)	23	(48)
Investing activities						
Acquisitions	(16)	-	(16)	(18)	-	(18)
Increase in deferred development charges	(1)	1	-	(6)	6	-
Purchase of property, plant and equipment	(14)	-	(14)	(42)	-	(42)
Proceeds from sale of property, plant and equipment	-	-	-	3	-	3
Proceeds on sale of short-term investments	-	-	-	101	-	101
Proceeds on sale of long-term investment	1	-	1	8	-	8
Proceeds on sales of product line	15	-	15	15	-	15
Increase of the restricted cash	1	-	1	(2)	-	(2)
Other	-	-	-	-	-	-
Cash provided by (used in) investing activities of continuing operations	(14)	1	(13)	59	6	65
Financing activities						
Repayment of long-term debt	-	-	-	(81)	-	(81)
Increase in bank indebtedness	15	-	15	15	-	15
Issuance of shares	1	-	1	6	-	6
Repurchase of shares	(15)	-	(15)	(32)	-	(32)
Cash used in financing activities	1	-	1	(92)	-	(92)
Effect of foreign exchange rate changes on cash and cash equivalents	(1)	(5)	(6)	(2)	(15)	(17)
Increase (decrease) in cash and cash equivalents during the period	10	(5)	5	(106)	14	(92)
Cash and cash equivalents, beginning of period	128	(3)	125	244	(22)	222
Cash and cash equivalents, end of period	\$ 138	\$ (8)	\$ 130	\$ 138	\$ (8)	\$ 130

¹ Reconciling items between Canadian GAAP and U.S. GAAP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

[All tabular amounts in millions of U.S. dollars, except where noted]

CONSOLIDATED STATEMENTS OF CASH FLOWS

Three months ended July 31, 2007

Nine months ended July 31, 2007

(\$millions)	Three months ended July 31, 2007		Nine months ended July 31, 2007			
	CDN GAAP	Recon. Items ¹	Restated U.S. GAAP (Note 2)	CDN GAAP	Recon. Items ¹	Restated U.S. GAAP (Note 2)
Cash flows from operating activities						
Net income	\$ 7	\$ -	\$ 7	\$ 757	\$ 3	\$ 760
Less: Income from discontinued operations – net of tax	(1)	1	-	808	-	808
Income (loss) from continuing operations	8	(1)	7	(51)	3	(48)
Adjustments to reconcile net income to cash provided by operating activities relating to continuing operations						
Items not affecting current cash flow	41	(6)	35	197	(2)	195
Changes in non-cash working capital balances relating to operations	(41)	(1)	(42)	(32)	(9)	(41)
Cash provided by (used in) operating activities of continuing operations	8	(8)	-	114	(8)	106
Cash used in operating activities of discontinued operations	1	-	1	(52)	-	(52)
	9	(8)	1	62	(8)	54
Investing activities						
Acquisitions	2	-	2	(601)	-	(601)
Purchase of Intangibles	(1)	1	-	(1)	1	-
Increase in deferred development charges	(5)	5	-	(7)	7	-
Purchase of property, plant and equipment	(28)	1	(27)	(45)	2	(43)
Proceeds from sale of property, plant and equipment	-	-	-	-	-	-
Proceeds on sale of short-term investments	14	-	14	165	-	165
Purchase of short-term investments	(81)	-	(81)	(118)	-	(118)
Proceeds on sale of long-term investments	-	-	-	13	-	13
Increase of restricted cash	-	-	-	(3)	-	(3)
Other	(2)	-	(2)	(2)	-	(2)
Cash provided by investing activities of continuing operations	(101)	7	(94)	(599)	10	(589)
Cash provided by (used in) investing activities of discontinued operations	-	-	-	929	-	929
Financing activities						
Repayment of long-term debt	(1)	-	(1)	(8)	-	(8)
Increase (decrease) in deferred revenue and other long-term obligations	1	-	1	1	-	1
Payment of cash dividends	-	-	-	(3)	-	(3)
Issuance of shares	5	-	5	15	-	15
Repurchase of shares	-	-	-	(441)	-	(441)
Cash used in financing activities of continuing operations	5	-	5	(436)	-	(436)
Cash used in financing activities of discontinued operations	-	-	-	(2)	-	(2)
Effect of foreign exchange rate changes on cash and cash equivalents	10	1	11	14	1	15
Net increase in cash and cash equivalents during the period	(77)	-	(77)	(32)	3	(29)
Cash and cash equivalents, beginning of period	290	(3)	287	245	(6)	239
Cash and cash equivalents, end of period	213	(3)	210	213	(3)	210

¹ Reconciling items between Canadian GAAP and U.S. GAAP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 [All tabular amounts in millions of U.S. dollars, except where noted]

(\$millions, except per share amounts)	Three months ended		Nine months ended	
	2008	July 31 Restated Note 2 2007	2008	July 31 Restated Note 2 2007
Net income (loss) from continuing operations in accordance with U.S. GAAP	\$ (10)	\$ 7	\$ 18	\$ (48)
U.S. GAAP adjustments:				
Deferred development costs - net	1	3	7	4
Deferred development costs written off	-	-	-	(3)
Mid term incentive plan reversal	3	(2)	(3)	(5)
Mark-to-market on embedded derivatives	1		2	-
Defined benefit pension plans	-		1	-
Unrealized gains on foreign exchange contracts and interest rate swaps	-	-	-	-
Reduction in income tax expense arising from GAAP adjustments	1	-	(1)	1
Net income (loss) from continuing operations in accordance with Canadian GAAP	(4)	8	24	(51)
Income from discontinued operations in accordance with Canadian and U.S. GAAP – net of tax	-	(1)	-	808
Net (loss) income in accordance with Canadian GAAP	\$ (4)	\$ 7	\$ 24	\$ 757
Basic earnings (loss) per share in accordance with Canadian GAAP				
- from continuing operations	\$ (0.03)	\$ 0.07	\$ 0.20	\$ (0.37)
- from discontinued operations	-	(0.01)	-	5.99
Basic earnings per share	\$ (0.03)	\$ 0.06	\$ 0.20	\$ 5.62
Diluted earnings (loss) per share in accordance with Canadian GAAP				
- from continuing operations	\$ (0.03)	\$ 0.07	\$ 0.20	\$ (0.38)
- from discontinued operations	-	(0.01)	-	5.98
Diluted earnings per share	\$ (0.03)	\$ 0.06	\$ 0.20	\$ 5.60

Recent Canadian Accounting Pronouncements

- Capital disclosures – The CICA issued Section 1535, “Capital Disclosures”, which requires the disclosure of both the qualitative and quantitative information that enables users of financial statements to evaluate the entity’s objectives, policies, and processes for managing capital.
- Inventories – The CICA issued Section 3031, “Inventories”, which replaces existing Section 3030 and harmonizes the Canadian standards related to inventories with International Financial Reporting Standards. The new Section includes changes to the measurement of inventories, including guidance on costing, impairment testing, and disclosure requirements.
- Financial instruments – The CICA issued Section 3862 “Financial Instruments – Disclosure” and Section 3863, “Financial Instruments – Presentation” to replace Section 3861, “Financial Instruments – Disclosure and Presentation”.

The Company has adopted Sections 1535, 3862 and 3863 effective for its fiscal year beginning November 1, 2007 and these sections affect disclosures only. The Company is required to adopt Section 3031 effective November 1, 2008. The Company is currently evaluating the effects that the adoption of Section 3031 will have on its consolidated results of operations and financial condition and is not yet in a position to determine such effects.

Executive Management

Stephen P. DeFalco

President and
Chief Executive Officer

Andrew W. Boorn

President, MDS Analytical Technologies

Mary E. Federau

Executive Vice-President,
Global Human Resources

Thomas E. Gernon

Executive Vice-President, Information Technology, and
Chief Information Officer

Kenneth L. Horton

Executive Vice-President, Corporate Development
and General Counsel

Janet Ko

Senior Vice-President, Communications

Douglas S. Prince

Executive Vice-President, Finance, and
Chief Financial Officer

David Spaight

President, MDS Pharma Services

Steven M. West

President, MDS Nordion

Investors' Quick Reference

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Stock Listing

Toronto Stock Exchange
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New York Stock Exchange
Symbol – MDZ